Congressional Hearings Show: We Must Shut Down the Fed

by John Hoefle

June 12—The Federal Reserve has always been, since its inception in 1913, a creature of the Anglo-Dutch Liberal system, an American version of the privately controlled central banks which allow the financial oligarchy to dominate global finance and trade. Founded by European financiers and their U.S.-based agents, the Fed was imposed as a way of absorbing the U.S. into the empire.

The Fed's duplicitous role has been on public display since mid-2007, as it has thrown trillions of dollars of public funds into the greatest swindle in history, the so-called bailout of the U.S. financial system. Through this bailout operation, the Fed and the U.S. Treasury have pumped prodigious amounts of funds into U.S. and foreign banks, insurance companies, hedge and private equity funds, money-management funds, and other parasites.

Through it all, it has been obvious that the Fed is acting against the interests of the citizens of the United States, but its ability to operate in secret has made it difficult for citizens to see inside its black box. Now, thanks to hearings held by the House Committee on Oversight and Government Reform, that veil has been lifted a bit. The committee, headed by Rep. Edolphous Towns (D-N.Y.), has released a number of e-mails among high-level Fed officials regarding the takeover of Merrill Lynch by Bank of America.

The e-mails show that the Fed is perpetrating a fraud upon the American people, with the active complicity of the U.S. Treasury, the Bush and Obama administrations, and the Nancy Pelosi-led Democratic leadership in Congress. It is past time to shut down the Fed, put it into bankruptcy, return to the Constitution, and convene a new Pecora Commission to investigate the corruption which now dominates the U.S. economy.

Culture of Corruption

The e-mails reveal, in the words of Fed officials themselves, a culture in which truth is routinely sacrificed to maintain the perception of solvency in the banking system and the larger financial markets. Rather than protecting the public from fraud, the Fed is helping, and, when deemed necessary, coercing, bankrupt institutions to keep the truth hidden.

Exemplary is an e-mail written by Federal Reserve Board governor Kevin Warsh to Fed chairman Ben Bernanke, regarding the merger of Bank of America and Merrill Lynch. Bank of America had hurriedly agreed to take over Merrill Lynch last September, on the weekend that Lehman Brothers collapsed, and AIG sought its initial bailout.

Amid ongoing discussions of the weaknesses at both banks, Warsh stated that, "the key to our ultimate determination will be market perceptions (that is, will markets see problems beyond ML [Merrill Lynch], particularly given relatively low levels of tangible common equity at parent)."

Market perceptions! No mention of protecting the public, or the depositors and shareholders of Bank of America, no mention of following the law and basic regulatory principles! No, the standard by which this transaction would be judged, and supported by billions of dollars of public funds, was its effect on market perceptions. That's not a regulatory agency; it's a whorehouse!

That culture of financial prostitution permeates the e-mails and notes released by the Towns committee. The Fed officials knew that Bank of America was already in trouble, and that having it take over Merrill Lynch would only make matters worse, but their overriding concern was hiding the bankruptcy of the system, and saving as much of the values of the derivatives and related securities as possible. When Bank of America CEO Ken Lewis suggested in December that he had reservations about going through with the deal, both the Fed and the Treasury leaned on him, even threatened him, to go through with the merger.

To be clear, we are not defending Lewis and Bank of America—there are no innocent victims here. With or without Merrill Lynch, Bank of America is bankrupt and guilty of perpetrating a fraud upon the public. Both sides are crooked. The merger should neither have been considered nor permitted—both institutions should have been shut down.

'Save the Cancer'

The e-mails reflect the understated nature of "Fed-speak." The Fed version of shouting "Fire!" would be to observe that "the ambient temperature seems to be rising in a measurable fashion." In a Dec. 18, 2008 e-mail, Tim Clark, a senior advisor in the Fed's Division of Banking Supervision and Regulation, warned that the financial conditions at Bank of America "have also deteriorated recently," and noted that "the firm is very thinly capitalized." Clark said that the decline at Bank of America "appears to be driving losses at ML even as they are portraying the losses at ML as being the problem here." So much for a "strong" Bank of America.

Merrill Lynch was also melting down, however. "Merrill is really scary and ugly," wrote Mac Alfriend, senior vice president of banking supervision and regulation at the Richmond Fed. Bank of America's headquarters in Charlotte, N.C. is in the Richmond Fed's district.

When a nervous Lewis suggested to regulators in December that Bank of America might invoke a "material adverse change" (MAC) clause to get out of the Merrill deal, regulators responded by warning him that such an action would have serious repercussions for Lewis, his bank, and the financial system. The Fed and Treasury threatened to remove Lewis and his board of directors if Bank of America backed out. "Fire BofA if you do it, irresp. for the country," said Bank of America chief financial officer Joe Price, in his notes on a conversation with Treasury Secretary Henry Paulson.

Bernanke declared that Bank of America's threat to invoke the MAC clause "is not credible." "The public assertion of the claim, however," he wrote, "would likely cause the demise of ML in much the same fashion as Lehman [Bros.]. This would cause significant reputational consequences for BA, in the markets, with the public, and with the regulators.... BA would look very weak in the eyes of the market."

Bernanke also wrote that Lewis "said now he fears lawsuits from shareholders for NOT invoking the MAC ... [and] asked whether he could use as a defense that the govt ordered him to proceed for systemic reasons." To which Fed general counsel Scott Alvarez replied, "First, we did not order Lewis to go forward, we simply explained our views on what the market reaction would be and left the decision to him. Second, making hard decisions is what he gets paid for ... so we shouldn't take him off the hook."

Alvarez added: "I want to avoid the Fed being the centerpiece of the litigation.... Once we're in litigation, all our documents become subject to discovery."

Shut It Down

Judging by the barest peek inside the Fed provided by these e-mails, the Fed does indeed have reason to fear discovery. Its officials have broken law after law, stolen trillions of dollars from the taxpayers, and viciously abused the nation. The Fed has taken in huge quantities of toxic waste as collateral for loans, and has been "printing" money like it was free, which, to the Fed, it is. The result is an institution that is both thoroughly corrupt and hopelessly bankrupt, yet Bernanke has the temerity to appear before Congress to demand that the government practice fiscal discipline!

Rather than give up our jobs, our health care, and our nation, as these parasites demand, we should instead declare that it is *their* system which is bankrupt, assert our sovereignty, and put the banking system into bankruptcy protection. It's us or them, and we *can* beat them.

johnhoefle@larouchepub.com