Smoking Gun: The Fed On Gold Manipulation

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GR Editor's Note

This important article by Tyler Durden first published by Zero Hedge in 2009 sheds light on the historical process of manipulation of the gold market by the US Federal Reserve.

There are indications that the Fed has continuously and systematically manipulated the Gold Market.

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by Tyler Durden

Zero Hedge has recently presented several declassified documents from the pre-1971 "Nixon Shock" days, that endorse the case for gold as a major historical factor in US monetary and foreign policy, as demonstrated by State Department and CIA disclosure. Gold's special status in policy and administrative decision-making was a direct factor in Nixon's choice to abolish the gold reserve at a time of an exploding budget deficit.

Yet what about the days after 1971, and specifically, how did that critical "behind the scenes" organization, the Federal Reserve, perceive and manipulate gold in the post Bretton-Woods world? Was gold, freed from its shackles to the dollar, once again merely a symbolic representation for money?Zero Hedge presents the smoking gun that may provide responses to all the various open questions, courtesy of a declassified memorandum, written by none other than the then Fed Chairman, addressed to the president of the United States.On June 3, 1975, Fed Chairman Arthur Burns, sent a "Memorandum For The President" to Gerald Ford, which among others CC:ed Secretary of State Henry Kissinger and future Fed Chairman Alan Greenspan, discussing gold, and specifically its fair value, a topic whose prominence, despite former president Nixon's actions, had only managed to grow in the four short years since the abandonment of the gold standard in 1971.In a nutshell Burns' entire argument revolves around the equivalency of gold and money, and furthermore points out that if the Fed does not control this core relationship, it would "easily frustrate our efforts to control world liquidity" but also "dangerously prejudge the shape of the future monetary system." Furthermore, the memo goes on to highlight the extensive level of gold price manipulation by central banks even after the gold standard has been formally abolished.

The problem with accounting for gold at fair market value: the risk of massive liquidity creation, which in those long-gone days of 1975 “could result in the addition of up to $150 billion to the nominal value of countries’ reserves.” One only wonders what would happen today if gold was allowed to attain its fair price status. And the threat, according to Burns: “liquidity creation of such extraordinary magnitude would seriously endanger, perhaps even frustrate, out efforts and those of other prudent nations to get inflation under reasonable control.”

Aside from the gratuitous observation that even 34 years ago it was painfully obvious how “massive” liquidity could and would result in runaway inflation and the Fed actually cared about this potential danger, what highlights the hypocrisy of the Fed is that when it comes to drowning the world in excess pieces of paper, only the United States should have the right to do so.Another notable observation is that despite a muted antagonism between the Fed and the US Treasury persisting for decades, the fuse is and always has been short, and the conflict can promptly hit a crescendo, with the Fed ultimately always getting the upper hand. In the case of the Burns memo, the Fed’s position was diametrically opposed to what the Treasury proposed was the proper approach.

The result: full on assault by the Federal Reserve over the Treasury’s credibility and even then, more than three decades ago, a veiled threat by the Fed involving escalating problems if the recommendation of the Treasury was picked over that of the Fed.”Severe criticism on the part of prominent and influential financiers would inevitably follow if the Treasury’s present position prevailed.” It is not surprising that the Fed’s modus operandi has not changed one bit since 1975: it is our way or virtually assured destruction/embarrassment way.Additionally, a curious tangent of the Burns memo is the fact that gold was explicitly used as an engine to enact political doctrine:

> “If the United States took a stand on the gold question that failed to satisfy the French in current international negotiations, would there be adverse economic or political consequences? I doubt it… If we do ever accede to French views on gold, we should at least use our bargaining leverage to achieve some major political advantage.”

And while gold as a policy mechanism was unable to satisfy its role this time, one wonders on how many subsequent occasions was global democracy trampled over in order to placate the US Federal Reserve:

> “I have consulted Henry Kissinger as to whether there is some political quid pro quo we might want to extract from the French in exchange for acceding to some part or all of their desired position on gold. But Henry tells me there is none at this time.”

At some point governments of advanced nations will say “enough” to the covert domination of their controlling bodies by the Federal Reserve, which through manipulation of its gold and money interests, effectively has control over not just the French, but every government which has a monetary basis to its respective economy and a relationship to the US “reserve” currency… Which means virtually every country in the world. The backlash, if and when it occurs, will be memorable.Lastly, the memo presents a useful snapshot into the cloak-and-dagger, and highly nebulous world of CB negotiations and gold price manipulation:

> "I have a secret understanding in writing with the Bundesbank that Germany will not buy gold, either from the market or from another government, at a price above the official price."

So to all conspiracy theorists claiming that gold is being manipulated on a daily basis by the Federal Reserve: when it occurs over and over, and is so well documented, it is no longer a theory, it is merely sad. And the fact that the US government goes to great lengths to hide the illicit dealings of the Federal Reserve, which through its monetary tentacles, has prima facie control over not just US policy but also over sovereign governments, is an unprecedented failure in the checks and balances system that the founding fathers had planned when they created the United States of America. Yet saddest is that the United States no longer pursues strategic goals that are in the best interest of the majority of its citizens, but merely manipulates other, less powerful nations into a servile existence that only provides gain to a very limited subset of the American financial oligarchy. It is time for the Fed's unprecedented control over affairs, both global and domestic, to end.Full memo from Arthur Burns presented, compliments of Geoffrey Batt who collaborated in the creation of this post. Fed Arthur Burns on Gold 6 3 1975

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