GlobalResearch
Center for Research on Globalization

The Real Economy Versus the Make-Believe World of Wall Street and the Fed

By Washington's Blog
Global Research, August 04, 2009
Washington's Blog 4 August 2009
Theme: Global Economy

In the real economy, unemployment is at Depression-era levels (see this, this and this).

In the real economy, bank loan loss rates will be higher than the Depression.

In the real economy, government revenue is at its lowest level since the Depression, and most states are on the verge of bankruptcy.

In the real economy, the world economy is crashing faster than during the Depression (and see this).

But in the make-believe world of the government and the financial giants, the recession is over.

How do they do it?

Well, as I noted a couple of days ago, the boys use:

- High-frequency trading, program trading-based frontrunning, and other computer-based manipulation of the markets
- Creation and manipulation of bubbles
- The Plunge Protection Team
- Intervention in the gold, currency markets, and bond markets
- Bear raids, naked short selling, and credit default swap holders driving companies into bankruptcy

In addition:

- Years ago, the government reporting some basic economic indicators like M3, and moved away from real economic indicators like U-6 unemployment and inflation and substituted economic indicators like "U-3" and "core inflation" to cover up what is really happening
- Normal accounting and reporting rules have been suspended, so that companies can pretend that worthless derivatives, CDOs, subprime mortgages and other

"toxic assets" are worth perhaps time times more than they are really worth. Indeed, as of 2006, "President George W. Bush has bestowed on his intelligence czar … broad authority, in the name of national security, to excuse publicly traded companies from their usual accounting and securities-disclosure obligations." One or more treasury department officials also actively allowed banks to "cook their books"

- Bernanke is apparently almost single-handedly responsible (using the Fed's network of primary dealers) for the current rise in the stock market

- The government also uses its preferred dealers to launder money through the Exchange Stabilization Fund (ESF), to prop up the dollar or otherwise game currencies

- The largest derivatives holders use their Counterparty Risk Management Policy Group (CRMPG) to literally collude – exchange secret information and formulate coordinated mutually beneficial actions – all with the government's blessings

- Wall Street analysts just ignore fines, penalties and expenses in earnings projections (in the words of a Bloomberg commentary, they "Keep Telling Big Earnings Lie")

- The sales of U.S. Treasury bonds are heavily gamed. Indeed, as Rob Kirby and Ellen Brown point out, Bernanke and the boys apparently use hedge funds in the Cayman Islands to launder huge sums of dollars printed by the Fed to secretly buy U.S. treasuries:

> In 2005, … this scheme evidently went into high gear, when China and Japan, the two largest purchasers of U.S. federal debt, cut back on their purchases of U.S. securities. Market "bears" had long warned that when foreign creditors quit rolling over their U.S. bonds, the U.S. economy would collapse. They were therefore predicting the worst; but somehow, no disaster resulted. The bonds were still getting sold. The question was, to whom? The Fed identified the buyers as a mysterious new U.S. creditor group called "Caribbean banks." The financial press said they were offshore hedge funds. But Canadian analyst Rob Kirby, writing in March 2005, said that if they were hedge funds, they must have performed extremely poorly for their investors, raking in losses of 40 percent in January 2005 alone; and no such losses were reported by the hedge fund community. He wrote:
>
>> The foregoing suggests that hedge funds categorically did not buy these securities. The explanations being offered up as plausible by officialdom and fed to us by the main stream financial press are not consistent with empirical facts or market observations. There are no wide spread or significant losses being reported by the hedge fund community from ill gotten losses in the Treasury market. . . . [W]ho else in the world has

> pockets that deep, to buy 23 billion bucks worth of securities in a single month? One might surmise that a printing press would be required to come up with that kind of cash on such short notice.4

In September 2005, this bit of wizardry happened again, after Venezuela liquidated roughly $20 billion in U.S. Treasury securities following U.S. threats to that country. Again the anticipated response was a plunge in the dollar, and again no disaster ensued. Other buyers had stepped in to take up the slack, and chief among them were the mysterious "Caribbean banking centers." Rob Kirby wrote:

> I wonder who really bought Venezuela's 20 or so billion they "pitched." Whoever it was, perhaps their last name ends with Snow [referring to then-Treasury Secretary John Snow] or Greenspan.

Those incidents were apparently just dress rehearsals for bigger things to come. In late 2005, the Federal Reserve (or "Fed") announced that beginning in March 2006, it would no longer be publishing figures for M3 (the largest measure of the money supply). M3 has been the main staple of money supply measurement and transparent disclosure for the last half-century, the figure on which the world has relied in determining the soundness of the dollar. But the curtain was now to drop. What was it that we weren't supposed to know? March 2006 was also the month Iran announced it would begin selling oil in Euros. Some observers suspected that the Fed was gearing up to use newly-printed dollars to buy back a flood of U.S. securities dumped by foreign central banks. Another possibility was that the Fed had already been engaging in massive dollar printing to conceal a major derivatives default and was hiding the evidence. [See this and this.]

But the problem isn't just that the government and financial giants are hiding the bad news in the real economy.

The bigger problem is that the government has been strengthening the parasite – the fake economy of derivatives and securitization and leverage and cut-outs and front men and cooked books – and poisoning the real economy.