The Long Con by the Federal Reserve Amounting to 3.6 percent of the US GDP, or $518 billion, each year since 1913

An Explanation about How the Bankers Who Convened at Jekyll Island, Again, Fooled this Humble Nation: "Inflation" is not an Accident of the Financial System, It is the Heart of a Con by which We are all Fleeced, Year by Year"

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Summary:

During my twenty years of studying this country's financial system in publishing the Capital & Debt Watch Newsletter, I came across something far more invasive and pernicious than the various pyramiding schemes such as by Bernie Madoff. I discovered a rather astounding version of the "Long Con." As those know, in a long con, the con artists, in this case the "old bankers," set up a rouse to bleed the victim. In this con, the main rouse was to convince everyone that inflation is a fact of life. In fact, inflation, at about 4% per year, is contrived by the old bankers (contrasted to the new bankers inventing other means of bleeding money away from folk, such as via derivatives). The con always involves some kind of "front" and since 1913, the front has been the US Federal Reserve. Prior to that, the front was the 1st National Bank of the US and the 2nd National Bank, which Jefferson and Jackson shutdown, respectively, because they saw the bleed of money from ordinary folk.

I term this con the "Fed Fleece" and I have written about it in more detail at "The Fed Fleece Proof." In short, the bankers who conceived of the Fed on Jekyll Island (see Griffith, The Creature of Jekyll Island) inserted one paragraph in the enabling legislation to create the Federal Open Market Committee (FOMC) and they gave this non-government, non-responsible entity the right to create and sell federal securities. I document, via a Barron's chart, how this committee has magically sold many more securities into the financial markets then they have purchase and returns only 10% of the proceeds to the US Treasury. And the other 90% (the other 90% of 4% of our entire GDP, aka, so-called "inflation") goes to line the pockets of member banks and thus member families. How? As with a fractional lending system, any "new money" can create 10 times that amount in new loans. So, if asked, the Fed says, oh yes, I do introduce the equivalent of money (these are Federal obligations and do not constitute newly created money as only the US Treasury can do), and I send the proceeds to the Treasury. What they don't say, and which is the heart of the con, is that the other 90% is bled away from all of us at the rate of 4% of GDP, each year. I fact checked this issue with Martin Mayer, author of The Bankers and The Fed and it was he who steered me to the 10% flow back to the Treasury. However, and now quite elderly, Mr. Mayer could not say quite how or why the other 90% has gone unnoticed. I don't even know if Dr. Bernanke is even aware that he is running the front for the largest con in all of history.

One political response to this 4% fleecing (3.4% to the bankers; .6% to the US Treasury – as a highly regressive tax) is that a growing economy needs more money in circulation and that the FOMC provides this addition to the money supply. In the age of electronic banking, however, it is highly unlikely that an increase in the velocity in the money supply isn't sufficient and, even if the increase is desirable, perhaps the best way to introduce this money, is not by fleecing us, but by paying everyone a dividend check in the amount of 4% of the GDP each year. Further, as mentioned here, what should the Fed do when GDP doesn't grow or even shrinks? As they take 4% away from our wealth at about the rate of GDP growth -- typically 3-4% GDP, will the same bankers return, say, 4% to us when GDP declines by 4%? In summary, the need to increase the money supply may be unneeded in this era of electronic banking and regardless, the money supply argument is a cover-up for the Long Con.

Related Center Activity – Financial Protection:

Like Professor Elizabeth Warren, I concluded that there should be a separate agency to prevent further financial collapses. However, unlike Warren, Dodd, and others, I see no stable solution except by forming a fourth branch of the US Federal Government for Financial Safety. The reasons for this are described in my rationale and description of a twenty-eighth amendment to the US Constitution. While the magnitude of this financial problem may appear to dwarf the issue raised here, if you take \$.518 trillion and multiply by 100 years, the amount is \$51.8 trillion in current dollars. This amount is surely on a par with the kinds of figures associated with the more recent debacle.

The Fed Fleece:

In August, 2009, my first version of the "Fed Fleece," (aka the Long Con), appeared on the CyberSociety List. Since then I have edited it several times as, 1.) I've seen corollary articles on the subject, and 2.) as I have further reflected on the problem. In August I had the opportunity to further discuss a draft of the paper with Mr. Mayer (author of The Fed) and explore where the \$51.8 trillion has gone. Mr. Mayer pointed to the .6% returning to the Treasury but was unsure about where the 3.4% has gone.

In general, I am quite astounded when I tell this story to various folk including Dr. Krugman, to the Chief Economist of the US Joint Banking Committee, and other Senators considering Bernanke's position. I am mostly greeted by silence. But silence is not what this uncovering deserves. Material from the August paper follows. For information about my background, see the credentials section below.

Original August, 2009 paper:

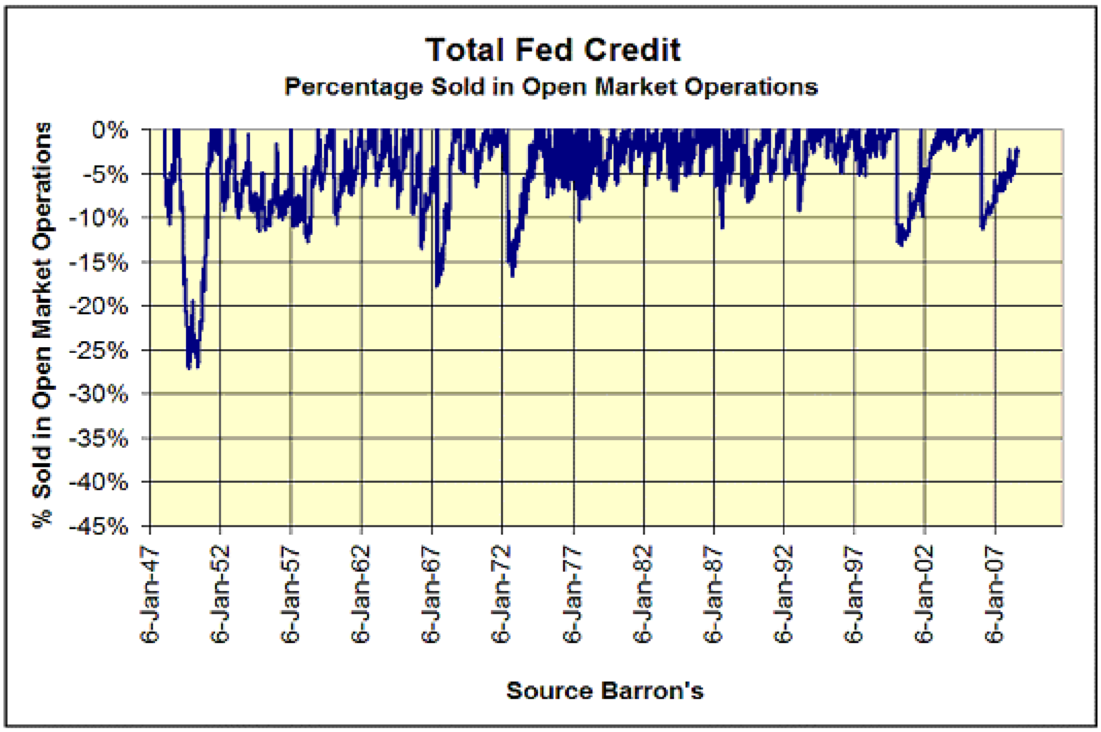
I now understand that the 4% inflation rate is a "slow bleed of society" created by the "old bankers." This is a form of the long con. The Fed is a diversion in this con-job.

This slow bleed destroys the ability to build up savings and maintain financial stability; this slow bleed destroys families; this slow bleed makes the (unworkable) Social Security System necessary.

There is no honest reason that a five cent candy bar shouldn't still be five cents today. This bleed has nothing to do with hyperinflation. This bleed has nothing to do with the destructive innovations of the new bankers, e.g., derivatives.

Both Jefferson and Jackson realized the fleecing, the bleed, by these so-called national banks -- and got rid of them.

But, like any very long con job, the "old bankers" just go into hiding and wait for another opportunity to begin it again. Look at the 1913 Federal Reserve Act. Examine the single paragraph giving the FOMC (Federal Open Market Committee) the legal right to sell "scribbled pieces of paper" as if genuine US treasuries. Note the Barron's chart over 60 years (also at http://www.elearningspace.org/debfom.gif :



Notice that this Committee with regulations only known to itself, has quietly been bleeding the nation, year by year at 4% of GDP. It ALWAYS sells more "obligations" than it buys. Only 10% of the proceeds go into the US Treasury. The rest is a gift to all member banks to be lavished as they will. In 1987 dollars, this meant that 400 billion dollars was created (do not confuse this with fiat money, this is sheer counterfeiting) So $40 billion, a horribly regressive tax, made it into the Treasury, and 360 billion was sent to "friends and relatives" of the (old) bankers.

However, today? Our problems are so much greater than this larcenous, slow bleed, and would Obama, Bernanke, Krugman, etc. care, if they clearly knew? And, as the bleed was always geared to an increase in the GDP (excused by the "need" to increase the money supply, which Milton Friedman noted, see recent obituary of his wife, where Friedman says "inflation" is due to the increase in the money supply -- note: this does not make it necessary nor any less larcenous), and in that our GDP is contracting ... does that mean that the "old bankers" will now purchase MORE obligations than they sold, and thus give back the money? Or, if Batra is correct ... that we are now a third-world country that is printing money (the trillions just printed as "stimulus") -- that like all third-world countries we will extinguish ourselves in a poof of hyperinflation.

And the Fed per se, only worsens matters in general. Greenspan destroyed this country by dropping the discount rate to 1% after the dot-com boom/bust.

So, in the middle of all this chaos, would closing the Fed be of any use even if the slow con were fully exposed? First, should the bleed be permanently stopped for all time? Yes. Second, DO close the Fed today if it serves the greater purpose of restoring tranquility and the faith of China and others in not selling us out.

But, whatever, the Chair of the Federal Reserve, Dr. Bernanke, owes it to the people to explain this Front before his next confirmation. What should be asked of the Professor is how is it that his main role is presented to “fight inflation” when, in fact, it is the major role of his institution to “create inflation”

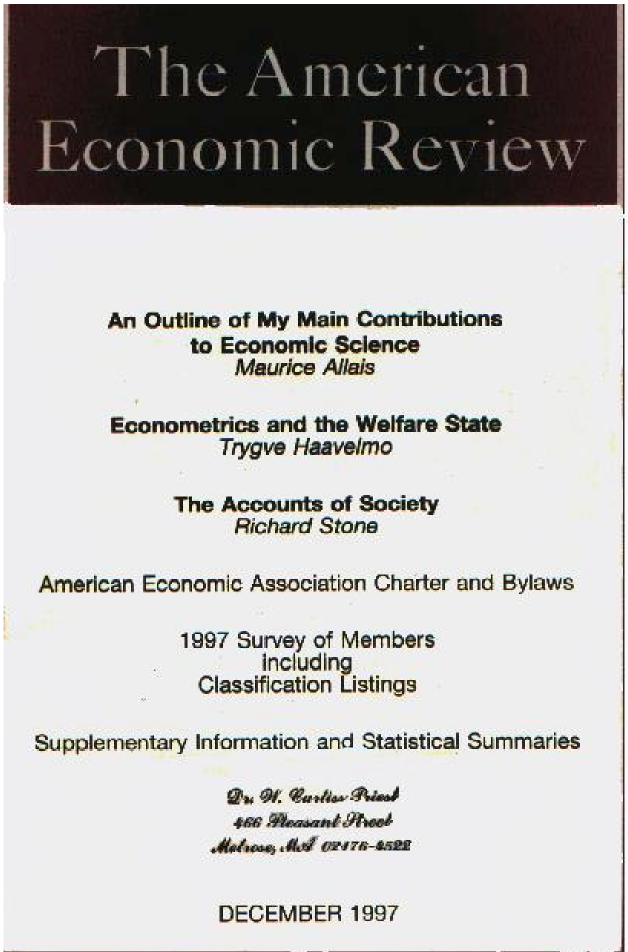
Dr. Priest, Credentials

I am a member of the American Economics Association since 1972, was the Chief Economist of MIT’s Center for Policy Alternatives. As Chief Economist he testified before Congress especially on issues on the Costs and Benefits of Regulation. Having retired last year from MIT, Dr. Priest is speaking as the director of an MIT founded Program (2008), The Center for Learning, Knowledge & Social Progress (CLK&P), now a 501(c)3 nonprofit near Cambridge, MA.

As editor of an Internet-acclaimed Newsletter on the implications of US Debt, and cited by Newsweek as one of the Fifty People Who Matter Most on the Internet (1996), Dr. Priest is author of Risks, Concerns and Social Legislation (Praeger, 1988) and the organizer of the CyberSpace Society, founded in 1999. Supported by grants from the MacArthur Foundation, Cisco Academies, AARP, and the US Congressional Office of Technology Assessment, Dr. Priest has had the freedom to seek the truth, no matter what the political implications of those truths are.

Further information about Dr. Priest’s more recent research and projects are described at the CLK&P web site. As some ask for proof of credentials, Dr. Priest received his Ph.D. in Management Science and Economics at RPI in 1972. He has been an active economist since 1972 as a member of the American Economics Association (shown in Figures 1 & 2). He has been an active member of the MIT community from 1978 to 2008 (shown in Figures 3 & 4). His financial newsletter reached nearly 10,000 Internet readers and past issues can be found in a search engine using a phrase ‘CITS debt watch.’

Member of the American Economics Association (1972-present): AER Members Directory (Figures 1 & 2):



The American Economic Review

An Outline of My Main Contributions to Economic Science
Maurice Allais

Econometrics and the Welfare State
Trygve Haavelmo

The Accounts of Society
Richard Stone

American Economic Association Charter and Bylaws

1997 Survey of Members including Classification Listings

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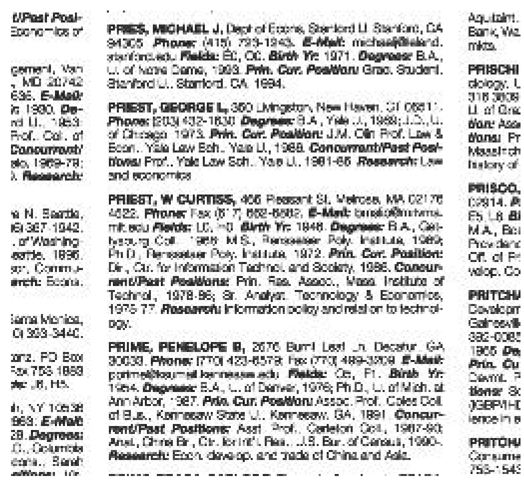

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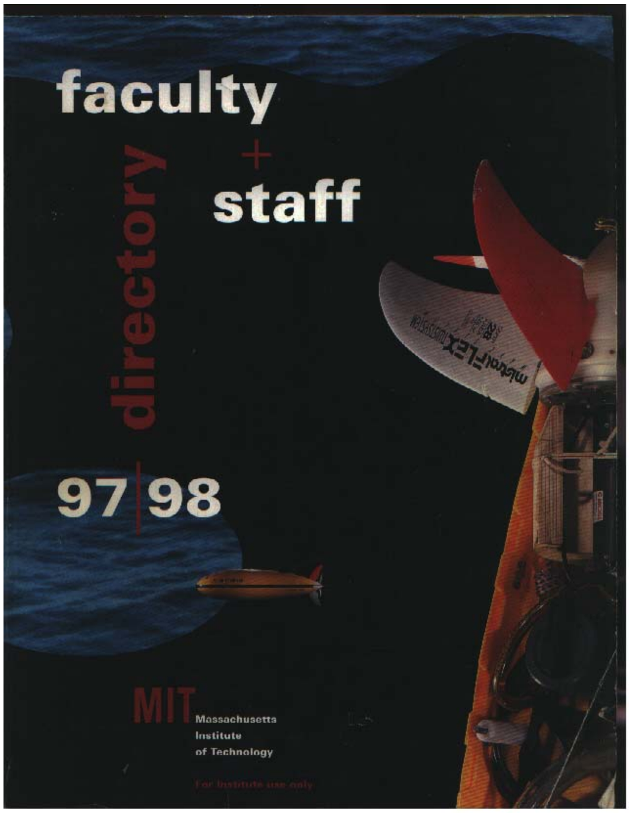
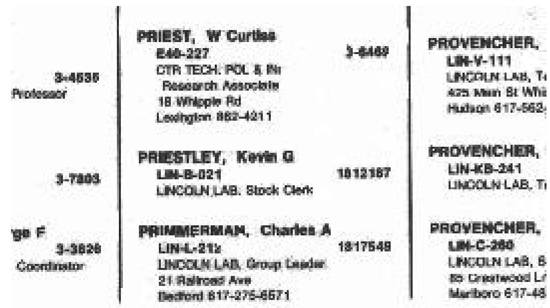
Member of the Massachusetts Institute of Technology (MIT) – 1978-2008, Figures 3 & 4.





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Currently, Director of the Center for Learning, Knowledge, & Social Progress (1986-present -- previously titled the Center for Information, Technology & Society), Figure 5.