Government Intervention in the Market? Is it a Duck?
From: http://www.austrianenginomics.com/id1.html

We are surrounded by anecdotal logic and to a lesser extent empirical evidence that our Federal government is directly influencing or intervening into the U.S. equities market. As a matter of operational practice our Central Bank regularly intervenes into the short-term bond market. Further, with the assistance of foreign Central Banks, there has been a coordinated intervention into the long-term bond markets. Of course, virtually all government interventions into any market are well intentioned, but are they healthy for the long-term stability of our economies?

Since the creation of the Federal Reserve in 1913, its charter empowered them to directly intervene and hence influence the money and credit markets to soften or smooth out the nasty free-market aberrations. Their primary mission is to ensure a stable currency and "full employment" via their monetary policy control of interest rates and FOMC (Federal Open Market Committee) operations to increase or decrease liquidity, when targeting the Fed Funds rate.

The U.S. equities market was designed to be free of government intervention. For many years we could proudly boast: "The markets are free and efficient"… "Willing buyers and sellers establish a "market-clearing price" minute by minute by their transactions." … "Valuation and thus price are based upon a company's future earnings potential"… etc…. Yes, for years we enjoyed some comfort that the rigors and harshness of a competitive marketplace kept equity market valuations in line with reality.

Government intervention into this "free" equities market is an extremely dangerous line to cross. Once crossed, an **addiction** is established. If a little bit of liquidity injection helps the market and makes people happy, why not a little more? The begging question is: Can a "determined" government strongly influence or even directly control the equity markets?

Of course…! … BUT only for a while!

I have developed a list of **logical reasons** our "well intentioned" federal government might utilize to intervene. But first, a few **methods** that have been abundantly publicized on HOW the government may intervene…

- The entire purpose of organizing the PPT (Plunge Protection Team) was to directly intervene in the event of a catastrophic drop in the market as happened in October 1987.
- The Chicago Board of Trade Futures Pit "massive mystery purchases"
- The "Greenspan Put" providing brokerage houses and banks assurance of unlimited immediate "liquidity on demand" to inject into the market.
- The Federal government and Central Bank both encourage credit expansion, a large percentage of which finds its way into the equity market.
- Hedge funds have become such a large part of our financial landscape, yet they are still largely unregulated. Their investments and funding sources are not visible. Could a government directly control or influence a few significant hedge funds?
- John Embry and Andrew Hepburn with the Sprott Asset Management Group released a report titled: "Mover Over, Adam Smith: The Visible Hand of Uncle Sam". Find it here… http://sprott.com/pdf/pressrelease/TheVisibleHand.pdf It is

one of the most thorough reports to date (released in August 2005) describing the reach of our federal government's "tentacles" into the American stock market.

So, the methodology of intervention exists (above), but does the motive? **Is it a duck? What are the logical reasons**?…

1) Alan "Bubbles" Greenspan is near the end of his legacy. The last thing he would humanly permit is leaving the economy on a defined downtrend. He will pull all stops, if necessary, to prevent stock, bond, or real estate equity asset values from falling precipitously, during his critical legacy sun-set period..... Following is a "play-by-play" commentary from a Dr. Robert McHugh missive describing recent Central Bank monetary manipulation mischief*…*

Regarding the rabid recent increase in the Federal Reserve's creation of money out of thin air, here is what Robert said in his December 22nd issue of his "Financial Forecast & Analysis" weekend publication…

"So what about M-3 the past week? The latest figures show that on a seasonally adjusted basis, M-3 rose 27.3 billion last week, a 14.0 percent annualized clip, and is up $76 billion over the past month, a 9.8 percent growth rate. But those are the massaged numbers. For the raw figures, fasten your seat belt. Are you ready? M-3 was increased $58.7 billion last week (that does not include the huge Repo infusions noted above), a 30.0 percent annualized rate of growth. For the past two week, the Fed added $93.5 billion to the money supply, a 24.0 percent annual clip. Over the past 6 weeks it is up $192.9 billion, a 16.7 percent Banana Republic hyper-inflationary pace. This is nuts, folks - unless there is an incredible risk out there we are not being told about. That is a lot of money for the Plunge Protection Team's arsenal to buy markets - stocks, bonds, currencies, whatever. This level of irresponsible money supply growth makes shorting markets hazardous, yet at the same time says markets are at huge risk of declining. Maybe M-3 growth doesn't stop the decline this time. Should be a fascinating storm in 2006…. **Does it quack?**

2) The white house has not completely given up on privatizing Social Security....yet... Is there a strong message to the Treasury Dept. and Central Bank to prevent a market fall, which would surely torpedo the initiative that is totally dependent upon stable, solid, dependable, and optimistic annual market valuation increases..? **Does it have feathers?**

3) The **war** is taking its toll. Is there significant pressure and direct intervention to prevent a dollar collapse? I.e. via central bank gold sales/lease efforts, and international central bank intervention to support the dollar. Could the war be giving the administration "permission" to directly intervene in **all** markets for "national security" reasons? If they can legally interpret the war resolution to empower eavesdropping on anyone at any time, why not also interpret from the resolution that permission exists for extraordinary market intervention as well?? The market has not experienced a single move greater than 2.5% in one day since the 9-11 tragedy. **Does it waddle?**

4) We recently experienced the greatest natural disaster in the history of the Republic and the market went up???? We are acutely aware that our central bank flooded markets with new liquidity following the events (similar to 9-11). Again, was there direct stock market intervention or, at minimum, anticipated intervention? ..... **Does it have a bill?**

5, etc.) Why isn't the covert action in the Chicago Futures market more visible in the major newsletters and media? Why are there long periods when the Caribbean and London based **hedge funds** are buying US Treasuries when nobody else in the world is???? Are we now dependent upon the volatile whims of hedge funds?? Are government "authorities" directly controlling a few large hedge funds??? Have we stooped that low? .... **I submit, it is a DUCK....!**

We know "Mr. Market" will emerge in the end, and we fear the extreme levels of manipulation (e.g. the 2003 massive tax cuts and extraordinary liquidity infusion) have us frustrated with experiencing illogical market behavior … Worse, I fear the addiction has taken irreversible control of our government's actions and has us directly on course to a depression. Once the Boomers begin to retire in mass (2008-2010) they will attempt to "cash in" on their overvalued financial assets (as a result of the most extensive liquidity injection in the history of the Republic) and discover the massive illusion our government worked so diligently to create, albeit unintentionally.

By Russell Randall; 1-13-2006