A Special Solari Report

Precious Metals
The Top Ten Dates in American History

Catherine Austin Fitts
& Franklin Sanders

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CATHERINE AUSTIN FITTS is the founder and president of Solari. She served as Managing Director and Member of the Board of Directors of the Wall Street investment bank, Dillon, Read & Co., Inc. She also served as Assistant Secretary of Housing/ Federal Housing Commissioner at HUD in the first Bush Administration and was the President and Founder of Hamilton Securities Group, Inc.

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This **Special Solari Report** is a compilation of excepts from *Precious Metals—The Top Ten Dates in American History*, a series of interviews with Franklin Sanders, conducted by Catherine Austin Fitts on *The Solari Report* during the last ten months. We are publishing the first six out of ten interviews with the remaining four scheduled for recording in 2011. The Precious Metal Market Report airs on *The Solari Report* on the 2nd Thursday of every month. **Visit www. solari.com for subscription information.**

The Constitutional Convention

Greenbacks and Banking Cartel

Roosevelt's Confiscation of Gold

1. The Constitutional Convention in 1787

Catherine Austin Fitts: Franklin, could you explain the Constitutional background for our money?

Franklin Sanders: You have to understand that there was monetary chaos in the early years of the United States. Each one of the colonies printed their own money. These currencies all traded at different values and depreciated at different rates and this created a chaotic environment for commerce across state lines. One of the main reasons that the Potomac Convention was called (which became the Constitutional Convention), was to deal with that monetary chaos. As far as we're concerned here, there were two things that came out of the Constitutional Convention. First, states were forbidden from making anything but gold and silver tender for payment of debt. Second, the federal government was given the authority to determine the value of a "dollar."

In 1792 the first Congress actually did that and they set "a dollar" as a silver coin that has three hundred and seventy-one and one quarter grains of fine silver. That was the standard coin of the United States. Congress also established gold coins that were related to that. Those standards were established by that early Congress and this is still part of the law, it's never been abolished. The content of the gold coins has been changed a little bit to adapt to the world market.

Catherine: Can we say that part of the Constitutional Convention was one of the most important ten dates in the history of gold and silver?

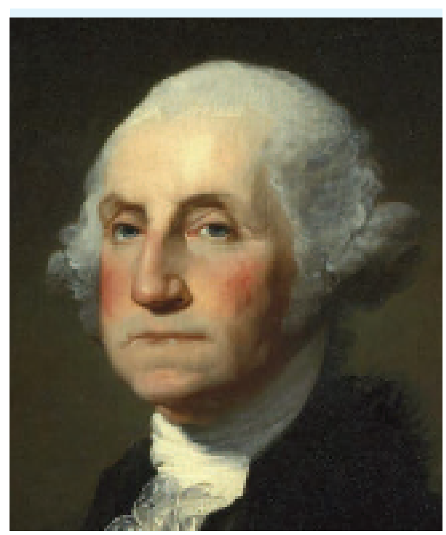
Franklin: Oh, I don't have any question of that, yes it certainly was because it meant that commerce could flow with confidence. George Washington reports this in a letter he wrote shortly after the Constitution had taken effect. "Commerce," he wrote, "reappeared. People started doing business with each other again." Within two years, prosperity burst out everywhere. The Constitutional standards were the reason. Since the introduction of paper money in the colonies a hundred years earlier, the various currencies had created confusion and suddenly that confusion was removed, and this allowed for a huge blossoming of the United States economy.

Catherine: Well, imagine what it would be like if we felt we could all trust the trading system? One of the main reasons that the Potomac Convention was called (which became the Constitutional Convention), was to deal with that monetary chaos.

Recorded April 8, 2010

One of the main reasons that the Potomac Convention was called (which became the Constitutional Convention), was to deal with that monetary chaos.

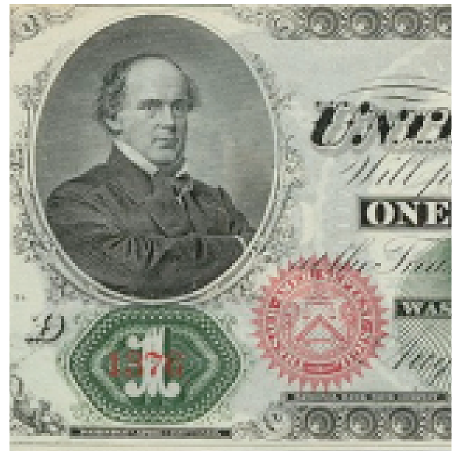
1795 U.S. Silver Dollar



"Commerce reappeared, people started doing business with each other again."

—George Washington

2. Greenbacks & Banking Cartel 1862 – 1863



Union "greenback" of 1862, portrait of Salmon P. Chase, the Secretary of the Treasury.

Catherine: We're doing a little series called *The Top Ten Dates in the History of Gold and Silver.* We talked about the 1787 American Constitutional Convention and its importance in the history of gold and silver. Last time we talked about 1873 as our second date and I've invited you to tell us your third date, so take it away.

Franklin: You and I got into this controversy as to which was the next most important date. You would think that the next most important date is 1913 and the establishment of the central back, the Federal Reserve. Maybe that's true, but to me the question is, "which is more important, the baby or the conception? When does the thing start?" If you think about the conception of the Federal Reserve, the embryo, the first form of the Federal Reserve came in the War Between the States between 1862 and 1863.

At that time Lincoln needed some way to finance the war and he not only passed the Legal Tender Act of 1862 that introduced the federal "greenback" but also the National Banking Act the following year. That act created a cartel, which was a sort of proto Federal Reserve. The reason to create the cartel of banks was so that through these banks Lincoln could sell bonds to finance the war. This turned out to be not just a wartime effort, because neither the "greenbacks" nor the banking cartel disappeared after the war.

The banking cartel, we find, did exactly what it was supposed to do, it squeezed out of business all the state chartered banks in favor of the national banks because the Federal Government taxed the paper money, or notes, that were issued by the state banks. [They] did not tax the notes that were issued by the national banks. The national banking cartel, which was created by the National Banking Act continued up until the time until it was transformed into the Federal Reserve System by the Federal Reserve Act of 1913.

With these things go together, the banking cartel and the currency, it's very important to understand that the Hamiltonians, which were the Whigs in Lincoln's day, wanted a central bank. That was part of their three-fold platform. That three-fold platform was, (1) public works for national improvement. In other words, building tracks for railroads, canals, public improvements of all kinds paid for at the tax payers' expense; (2) A high tariff; and (3) a central bank.

This had been Alexander Hamilton's program too, a high tariff and a central bank. Hamilton tried to start a central bank with the Bank of the United States, but the First and Second Banks of the United States both eventually fell through, but Lincoln is really the one who solidified the national banking cartel with the National Banking Act and Legal Tender Act.

This is where the national government took federal control of the banks, or even better, where the banking industry took control of the federal government. Very few people realize the importance of this. Now the interesting thing is that in the 1960's and 70's, the Federal Reserve made sure that all of the greenbacks were taken out of circulation. Greenbacks are still authorized, I don't know but there were one hundred and fifty to two hundred million dollars worth still authorized to be issued, and yet what the Federal Reserve has done is to pull almost all of those bills out of circulation; so they don't exist anymore.

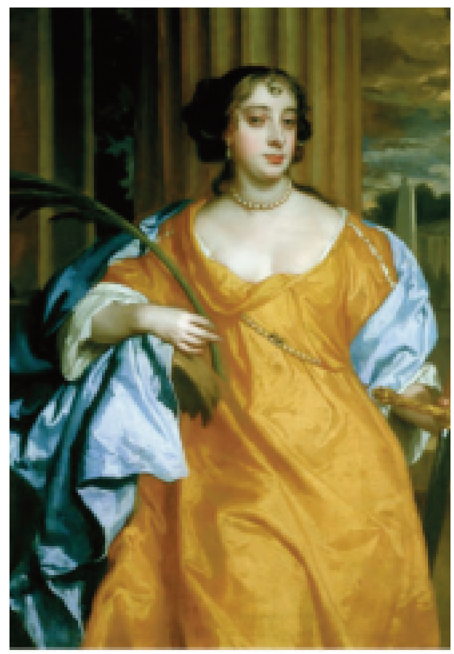
Catherine: We talked earlier, leading up to this, and essentially what I'm thinking of as the East/West trading of the gold/silver ratio. And I would love it if you could give us a little background on that, and the literal shift of silver out of print and into China.

Franklin: The fact is that you can think of history as these flows of silver and gold back and forth between the East and the West. It happens that, silver will be undervalued at one place or the other, and that differential is enormously significant. You can see this especially in the 17th Century when silver was valued at roughly ten to one in China, and in Britain at fifteen and a half to one. What that means is that fifteen and a half ounces of silver bought one ounce of gold, or one ounce of gold bought fifteen and a half ounces of silver in Britain; whereas in China one ounce of gold bought only ten ounces of silver. Silver was either tremendously undervalued in Britain or over valued in China.

What happened is that after the restoration of the Stuarts in 1660, Charles II's government was extremely corrupt in England and there was a law that prevented silver being exported from the kingdom. Through Charles' mistress, Barbara Villiers (1640-1709), a faction belonging to the East India Company got a law passed that allowed them to take silver out of the county.

Catherine: Now I would just like to say that if you happen to look at financial service reform, nothing has changed.

Franklin: Right, except the prostitutes are different. The prostitutes are in Parliament now. With this law passed, Villiers and her East India cronies literally emptied England of silver. Think about [this], take one boat load of silver to China and you buy goods that even at wholesale are worth 50% more than you had to pay for them, and then you come back and you sell them at a



Barbara Palmer (nee Villiers), first Duchess of Cleveland (and great, great, great, great, great grandmother of Princess Diana)

two hundred to three hundred percent margin, it doesn't take long for your ship to get full.

Catherine: Right, that's called WalMart.

Franklin: Exactly, it's the same kind of thing. The Chinese wanted the British silver because they were on a silver standard and didn't really have much use for the gold. A century and a half or so later, I really think that the opium wars were part of Britain's attempt to balance their deficit of payments with India and the far east by forcing the Chinese to buy opium grown in India. The Chinese imperial government refused to do this. They didn't want the opium in their country and knew what it could do to their people, so the British fought two wars to force the Chinese to smoke opium (1839-1842, 1856-1869). The British made plenty of money on that opium trade.

When you come into modern times, what you see [is] that Roosevelt is partially responsible for the 1948 Communist revolution in China; or better the victory of the Communists. In the 1930's Roosevelt engaged in a nearly seven-year manipulation of silver in which he tried to manipulate the price of silver higher. The problem with that was that China was on a silver standard, still. As he manipulated the price of silver higher, Chinese exports became more expensive. Eventually, Roosevelt's manipulations wreaked havoc on the Chinese economy, eventually forcing China off the silver standard in 1935 and strengthening the Communists' hand against the economically weakened Nationalist Government.

Catherine: Is there a pattern here? An effort by the West to get China and India to use exchange traded funds, so that they are buying paper, not physical things? This is a critical issue.

Recorded June 10, 2010

The Honorable East India Company Nemesis destroying Chinese war junks in the Second Battle of Chuenpee, January 7, 1841

3. The Crime of 1873

Catherine: Our second date, of the top ten dates in the history of precious metals, is... Franklin, take it away.

Franklin: Well, I think 1873 in my mind is that date.

Catherine: Ah, I remember it well!

Franklin: No, no you don't. I don't even remember it. In 1873 occurred what's called "the crime of 1873." The United States demonetized silver. They did it by the back door, the typical kind of stuff we expect today; they passed a new coinage act and the new coinage act simply did not provide for the minting of silver dollars. This meant that the money supply would be reduced by about a third, or so.

Why is this so important? It's not just a deflationary effect. You see back then the bankers were net bondholders, so they were purposefully pursuing a deflationary strategy from 1865 to 1913. Since mankind has been on this planet there's been a monetary system and it has always included both silver and gold (and for a long time it included cooper as well), but when the "dollar" is defined as a paper unit rather than in terms of silver then an objectiveness has been removed from the system.

When you had the dollar defined as so many grains of silver or exchangeable for so many grains of gold then one unit is valued in terms of the other. When you have one unit only, a monometallic gold standard, and it's defined by silver, but by paper, then the government, sooner or later, is going to devalue the currency.

That's what the "crime of 1873" set-up in the United States, the future, and inevitable, devaluation of the currency.

Catherine: There's a great video that we suggested with this week's update, it's posted on the blog. It's Congressman Ron Paul explaining Greece's currency crisis and saying "You know, it's coming this way. That's why we need transparency with the FED." He's right!

Recorded May 13, 2010

William Jennings Bryan's "Cross of Gold" speech at the 1896 Democratic Convention is probably the most famous attack upon the "crime of 73". *Political cartoon from the Republican Judge.*

...the new coinage act simply did not provide for the minting of silver dollars.

Congressman Ron Paul explains Greece's currency crisis on CNN.

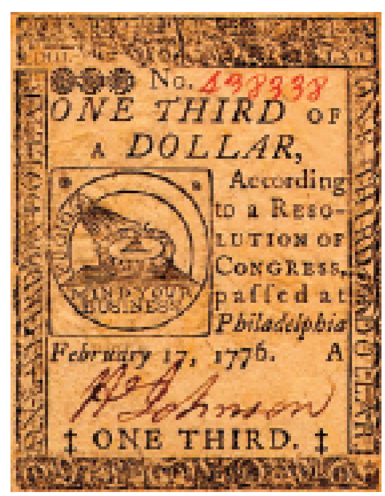
4. Creation of the Federal Reserve—1913 (Part I)

Catherine: Let's turn to our next date in our list of the top ten dates in Gold and Silver and I thought we'd talk about the creation of the Federal Reserve, but that's such a big topic that what we've decided to do is to split it up into several sections. We're going to start today with the historical context of the Federal Reserve. Could you walk us through the creation of the Federal Reserve in 1913? What are the key historical issues that are the backdrop of this enormous development?

The Federal Reserve building

Franklin: I need to go back to 1678, because the first fiat money, paper money, that appeared in the colonies that eventually became the United States appeared in Massachusetts. Massachusetts has set out a military expedition against French Canada. Nothing came of the expedition but Massachusetts had to pay the men and to do this.

The colony floated the first issue of paper money. From that time, the issuance of paper money by all these independent colonies became a nightmare because they all issued money at different rates. This meant that the various currencies depreciated at different rates. Eventually you had all this paper currency circulating and nobody really knew what it was worth.



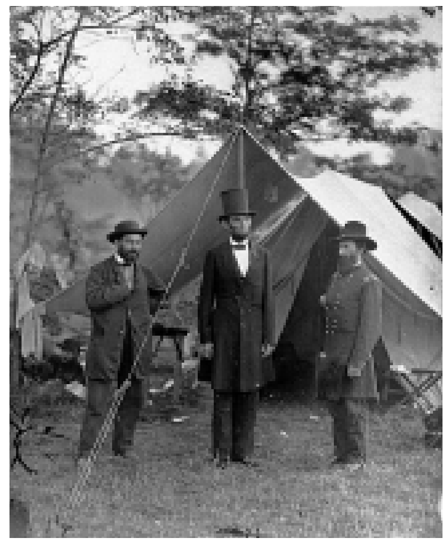
The Continental Dollar had no backing behind it.

People were constantly being gypped and cheated. By the time you got to the American Revolution it was a huge problem. The Continental Congress made the problem worse by issuing its own currency, the "Continental," which depreciated massively during the war because they never but any backing behind it; in fact they didn't even try, they just issued more paper money when they needed it.

You have one hundred years of experience with the perils of fiat money before the founding on the United States and then comes the Constitutional Convention. The Constitutional Convention was called in part because of the crisis that the fiat money created. There couldn't be any commerce between the states because there was no way to pay for the commerce; there were all these different currencies in circulation. What the Constitution did was to take from the states the ability to make anything other than gold or silver coins as tender of payment and debt.

The Constitution did not strip them of the ability to make a tender altogether but it said if a state did issue their own tender it had to be in gold or silver. That was interpreted from then until the beginning of the War Between the States. There were a number of court cases where states tried to operate state banks or they tried to issue warrants or paper money or whatever it was and the Supreme Court universally ruled that you can't do that. The only money in this country, the only way to pay a debt is not with bank notes of any kind but with gold or silver coin.

All of that history is behind what happened in 1861. When the War began, Lincoln needed a network to finance the bonds that financed the war. In 1862 they set up an embryonic Federal Reserve. This embryo became center of the Federal Reserve and that is the Green Back Act and with that the National Banking Act that created a cartel of national banks and basically tried to put all the state banks out of business. It certainly took them out of the money creating business. You already had a centralization take place in 1862.



When the War began, Lincoln needed a network to finance the bonds that financed the war.

Now to go back again to the end of the Revolution, the ink was not dry on the Constitution before conspirators were plotting to how they were going to get a central bank in the United States, because, by that time the Bank of England was already a hundred years old, they knew how profitable it was. They tried with the First Bank of North America, and then with the First Bank of The United States and the Second Bank of The United States.

All of these things were issues; the issue of a central bank, the issue of the problem of banking, and banking as a parasite on the economy. These were all lively political issues, and all of the money issues were lively political issues right up until the War Between the States.

Catherine: Right; in fact the population was in fact much more knowledgeable about the issues.

Franklin: Yes, incredibly more knowledgeable. It's astonishing, if you really want to feel ignorant go read some of those court cases where these judges, who are obviously lawyers, actually have this deep philosophical understanding of the economic mechanics of money. You have all of those things going on that go into the pie with the Federal Reserve. What the war did was to create an extremely powerful cartel rich people; there were people who made vast fortunes off financing and supplying the war. This had never existed before in The United States.

DuPont was just a sleepy little powder manufacturer, one of many in the North. Well they became enormous, so enormous that by 1905 they could split the entire world up Imperial Chemical and say, "Okay, all the countries on this side of the line we're going to sell gunpowder to and you can sell to all the people on that side of the line." They literally split the world in two.

It was the same way with finance. The banks became immensely powerful, so that after the War the banks had bought with paper money government bonds, the bonds were supposed to be paid back the same way, instead they got the Credit Strengthening Act passed in 1868, which said that not only the interest but also the principle on the bonds would be paid in gold.

What this meant was that the bankers were net bondholders in that post war period and they initiated several different acts that deflated the currency. Well, you know what happens when you have a deflation, the value of each unit of currency rises. Not only the interest but also the principle that the bondholders recovered grew in value, and in purchasing power.

Meanwhile, the whole country was locked into this deflation. There would be a post-war depression anyway because when you remove all of that demand it takes a few years for the economy to readjust.

There was a post-war depression; there were hard times then until the early 1890's. As we talked about in another segment, silver was demonetized, which further decreased the money supply. The lines were drawn by 1905 and there was a huge anti-banking party in The United States, the Populist.

Now when everybody says the word populist, they sneer, but the Populists were trying somehow or the other to counter balance the economic power the banks had over the people. One of those things was bimetallism and they were against a central bank, but you had the panic of 1907, and that was put forward, with a lot of other window dressing on it.

This big commission that was sent over to Europe to investigate central banking and all of that sort of stuff, produced a seven volume report that nobody ever read, except for the last line that said that we need a central bank.

This is the background to central banking in The United States, and there was huge opposition to a central bank and that's the reason why the banking act, the Federal Reserve act was passed in the final hours before Christmas in 1913 when nobody was there except the proponents of the bill. The other representatives and senators weren't there to vote against the Federal Reserve act.

Catherine: Okay, well next month we'll go into the creation and the passage of the act.

Recorded August 12, 2010

The U.S. Green Back

4. Creation of the Federal Reserve—1913 (Part II)

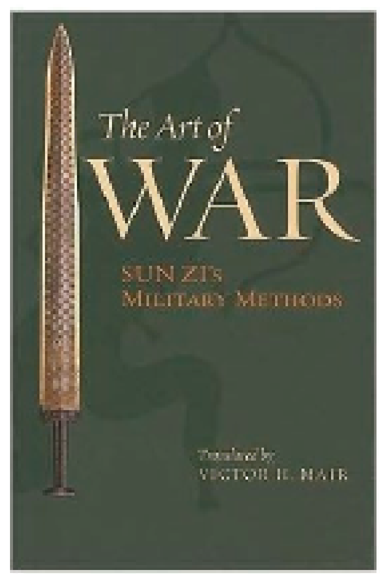
Catherine: Now it's time to talk about 1913 and the creation of the Federal Reserve. I just looked at a chart from the American Institute of Economic Research that showed the decline of the purchasing power of the dollar since 1913. They estimated, Franklin, that $19,000,000,000,000 of American savings have been wiped out as a result of the decline of the dollar; what you would say "the management of inflation." It's astonishing to me; this is such a rich country and has been such a rich country and every year it produces such an enormous harvest of both agriculture and natural resources. What is amazing is that I don't think that people realize how much has been stolen. With that, take it away.

Franklin: Let me start with that thought because you have to remember that the embryo of the Federal Reserve is what we talked about last time, the "Green Back" Act and the Banking Act of 1862. What those two acts did was to create a system to finance The War Between the States. The interesting thing to think about here is that always in the past every war had been limited by the ability of the belligerents to finance the war.

In other words, you can carry on a war for a year or two years but was is a very expensive undertaking, and you've got to lay taxes and then levy the taxes to pay for the war. There's an upper limit on that.

Catherine: It was fascinating because when Victor Mair came on the Solari Report to cover his translation of *Sun Tsu's The Art of War,* he walked through, both in the book and in our discussion, the history of Chinese military. I realized (it was like an explosion went off in my head) that the reason the Europeans could have the ability to throw resources at everything during a war, whereas the Chinese were very skimpy in their means of making war, was because the Europeans had the bond market and the Chinese didn't. It might have been just that simple. The Chinese didn't have a central bank and the Europeans did.

Franklin: Yes. I think that's true, and of course Sun Tsu is writing about twenty centuries ago; before the ability to finance through a central bank or the existence of fiat money. You have to keep in mind that the purpose



The Art of War: Sun Zi's Military Methods (Translations from the Asian Classics) by Sun Zi and Victor H. Mair

of a central bank is to fund an enormous state. That's the whole purpose of it; whether the state is going to be at war and is going to need the money for war or (and I think this is one of the big purposes of the Federal Reserve) whether the state is going to be the welfare mother and take over the costs of capitalism for it's labor. Either way you look at it the purpose of the central bank is to create money (and spend it) that could not be raised otherwise. In other words, this money can't be raised by taxes.

This is a very broad view, but I think that the industrialists from the post-War Between the State period forward were planning for that world where they would have a docile labor force and where the state would assume the costs of the labor force when it does not work. You have to go back a lot of years to this, but if you go back to somebody like George Fitzhugh (1806-1881) who explained that when you ended slavery you ended serfdom then suddenly there are all these social costs of labor that somebody has got to pay. In other words, there's the cost of infancy, there's the cost of infirmity, there's the cost of old age. Labor has to be cared for in all those stages and the problem with a free market and so-called free labor is that nobody is paying for them. They're so desperate for jobs they will bid down the price of labor to a starvation wage. So, if you want the state to assume all of those costs through social security, through welfare, through medical care and all these things then you can't tax enough to do it. It can't be done because people will revolt before they will pay that much in taxes and therefore you have to have a federal bank that creates the money out of nothing and actually levies the inflation tax on these people's pockets.

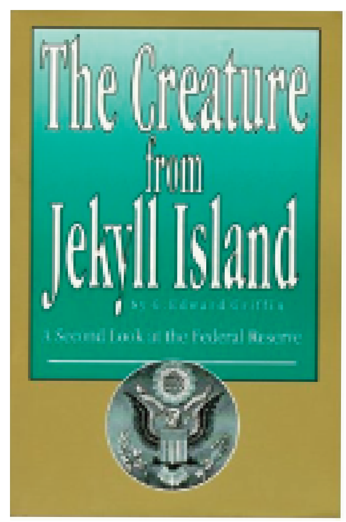
Catherine: One of the scariest realizations I had when I was driving around trying "to figure things out" was when I discovered this as a political formula. If you inflated away $10,000 of a person's savings in a year, or did something to lower the value of their labor or the value of their small business, but you turned around and gave them a two thousand dollar tax refund, then you would gain their political support. So people would always take an indirect loss of $10,000 to $20,000 in exchange for a direct payment of two thousand dollars.

Franklin: Right. Because most of them won't realize the indirect loss. You have to recognize that the Federal Reserve was the set-up for World War I and the entire expansion of the state into all these areas into which it's expanded after 1913. You have to look at the Great Depression not as a failure of industrial capitalism (and I distinguish between industrial capitalism and capitalism or free enterprise) but as a rationalization of industrial capitalism where the system reached a level where it realized it failed. Then, in order to cure those failures, the New Deal was instituted which included Social Security and various other sorts of welfare. There was a complete change of direction with the government taking over control of the economy. Of course, when I say, "the government taking over control of the economy" you understand that means the persons who control the government are taking over the economy.

Let's come back to the Federal Reserve, having laid all that foundation. What happened was that in 1907 there was a huge banking panic. The banking panic was stopped by J. P. Morgan who was the agent of the Rothschild's in The United States, and the Rothschilds were of course this enormous European banking family that had enormous power then and now. The panic, a lot of people think, was precipitated by Morgan in the first place; in any event he stepped forward and stopped the banking panic. This was "a run on the banks" kind of panic. After the crisis they had this very decorative but very pointless committee appointed by the government to go over to Europe and study European banking methods and, surprise, surprise, when the committee came back they issued a 14-volume report (you can find the report in your local law library) that says, we need a central bank. Since it was all the New York bankers that they sent out on that committee to do the study it's no surprise what they came back with. The United States was politically very suspicious of that idea, and they were suspicious of Wall Street and the New York banks.

What happened was that a group of New York bankers met in secret at Jekyll Island, you mentioned "The Creature from Jekyll Island;" the whole story is told there about how they had a secret train to take them down to this private estate in Jekyll Island in Georgia and there they cooked up this Federal Reserve Act. Then [they] came back and Senator Frank Vanderlip, who was one of the relatives of that whole connected group of New York and New England families, got the thing pushed through the Senate. First they got Woodrow Wilson elected who was an incompetent and then, right on the 23rd of December, 1913, after most of the Senators and Representatives had gone home, they jammed this bill through the Congress, and it passed. That was the Federal Reserve Act, and not many people really understood what had been done.

They had learned from both the First and Second Banks of The United States the crisis of their existence occurred when their franchises expired after twenty years. In the act that created the Federal Reserve there is no expiration of the Charter of the Federal Reserve, It's perpetual. They created a perpetual money creation machine. Catherine, here's what's so hard to



"The Creature from Jekyll Island," by Edward Griffin, is one of the classics which describes the creation and true nature of the Federal Reserve system.

grasp about the whole thing. You have to stand back to really, and we live in this environment, so it's hard for us to see the horror of it. By the Federal Reserve Act, the Congress actually gave, to a private corporation, the ability to create money out of thin air with legal tender status. This means that they could force all the rest of us to take it under penalty of law, the "penalty of law" being if we didn't take it then our debts were counted no good.

Catherine: Now there's something else the Federal Reserve gave them the power to do because remember that the New York Fed, which is sort of the flagship of the Federal Reserve system is the depository for the US Government. They gave them essentially control of the federal government accounts. This is an enormous power, particularly if you are free to run them outside of the law, which I would suggest that they are doing.

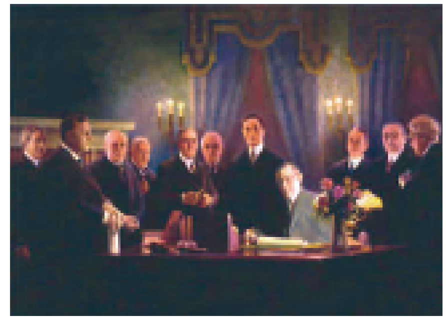
Franklin: But I think there is something even more important here. If the Fed has control of the interest rates, remember what the interest rate it, it's the price of money, and everybody uses money, right? If I gave Catherine the right to control the interest rate, could Catherine make money knowing what was going to happen in the future? Well of course she could. She could make a boatload of money because she would know before anybody else what was going to happen.

Catherine: In 1999, I emailed the heads of public affairs, the PR officers, of all ten Federal Reserve banks. I asked these questions: Who owns your shares? What companies manage your databases? Who has access to your data? Are your shareholders allowed to have access to your data? Because the reality is if you have access to all the data Nicholas Negroponte said that in a digital age data about money is worth more than money.

You're talking about the ultimate insider trading, particularly when you can just create the money you use to make your bets. There's kind of an infinite rate of return.

Franklin: Exactly. When they got the right to create money out of thin air, in a certain sense that's the least of the powers the Federal Reserve Act gave them. It gave them complete control of the economy. Just the control of the interest rate alone would give them that. Nobody thought that Woodrow Wilson would give the notes of the Federal Reserve legal tender status, but he did. I don't know whether or not he was influenced by Haus to do that or what, but he gave their notes legal tender status.

Catherine: He later apologized, Franklin. He said it was a terrible decision.



Wilson signs the 1913 Federal Reserve Act, establishing the Federal Reserve System. Painting by Wilbur G. Kurtz, Sr., 1923, Woodrow Wilson Birthplace Foundation

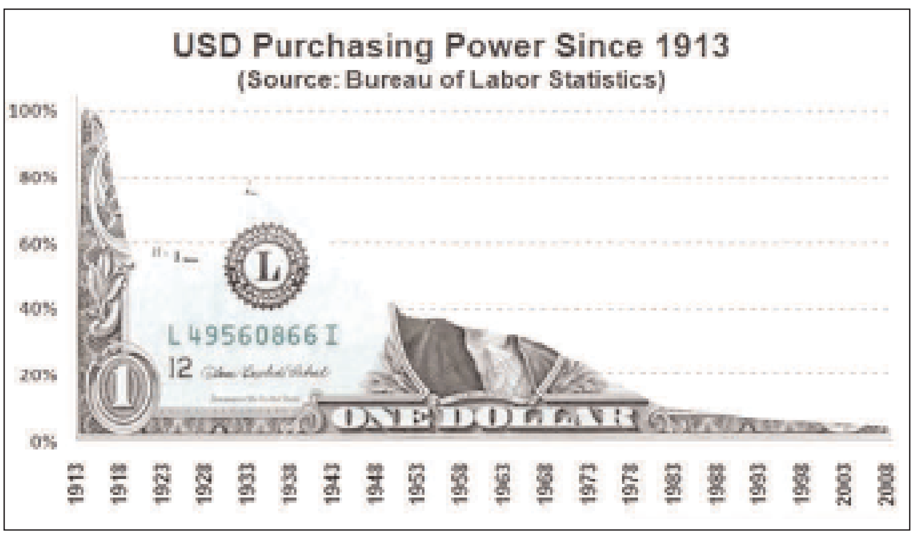
Federal Reserve Board in 1917

The Federal Reserve was partly responsible for the stack market bubble that led to the crash in 1929 that sent the country into the Great Depression.

Franklin: Did he really? The point is, that was a seizure of power, and it was really a coup d'état because they seized control of the state and if you look at the whole history of the United States you realize that this fight has been going on almost the entire history of the United States. When the Federal Reserve was established the banking party won.

Catherine: Yes, and the thing that says it all is a picture. You get a picture of what has happened to the purchasing power of the dollar ever since. What you're watching is basically an extraction of wealth engineered by the system that when into affect in 1913. That decision, to establish the Federal Reserve, essentially was the foundation for Americans loosing nineteen trillion dollars of wealth.

Franklin: Right, and you mention AIER, the American Institute of Economic Research, they have a fabulous chart that shows the purchasing power of the dollar. From 1792 until 1913 the purchasing power of the dollar is almost flat. There is a big jiggle in the War Between the States, but for most of that time, it's almost flat. Then, you come to 1913 and from then until now . . . .



Catherine: It's like a ski slope at Aspen!

Franklin: Oh, it's unbelievable! The dollar has lost 90% of its value.

Catherine: Well, we were going to talk about government money, Franklin, but we've run out of time, so I'm going to defer that until the October Precious Metals Report.

Recorded September 9, 2010

5. Roosevelt's Confiscation of Gold 1933

Catherine Austin Fitts: 1933, Roosevelt's "Confiscation of Gold," what can you tell us about what happened in 1933?

Franklin Sanders: Well, you've forced me to go back and do some reading and a little bit of studying and as I contemplate 1933 and I realized that I had far, far undervalued the importance of that event. What actually happened was that the banks staged a coup d'état against constitutional government in this country and they overthrew the constitution.

They overthrew, or eliminated, constitutional gold and silver money. That may not mean much to your listeners, except they have to understand that for over one hundred and thirty years the constitutional money of the United States was in gold and silver.

Here's what happened: The banks were bankrupt; by the way, the elimination of the banks' requirement to pay-out gold was the "bailout" of 1933. So, if you think TARP was big with eight-hundred billion dollars (and then another trillion dollars that was thrown at the banks in the form of buying their rotten debt, mortgage backed securities), how do you value the theft of the entire gold stock of the whole country? That's what the banks ended up with. What happened was that the banks were bankrupt, but at that time they were required to keep a substantial reserve against their liabilities; they were required to keep about a 35% or 40% reserve. This reserve was in different forms; part of it was bonds, and part of it was in gold and they were required to pay out gold when people came to get their deposits back.

When the financial crisis developed at that time, they couldn't pay out gold and the banks wanted a bank holiday. Now, what is a bank holiday? A bank holiday is when a bunch of people make promises to take your money but give it back on call (when you want it), and then when they can't do it, and these people who take your money are called banks, they go whining to the government to illegally bail them out. That's what a bank holiday is. It means there's a run on the bank, the people don't trust the bank and they want their money back (which is reasonable) and the government says, "Uh oh, you can't have your money; we're going to shut down the banks"

...there's a run on the bank, the people don't trust the bank and they want their money back.

Roosevelt is inaugurated on March 4, 1933, and he immediately declared a bank holiday' on March 5, closing all banks the next day.

Baby Boomers' created this enormous bubble of retirement savings and assets and it's been stolen.

5. Roosevelt's Confiscation of Gold 1933

Hoover was on the point of declaring a bank holiday, and Roosevelt wouldn't cooperate with him because Roosevelt had schemes of his own. Hoover would have done a lot of the same things, certainly he would have given the banks the bank holiday that they wanted, but the bankers put forth that they didn't want to pay-out the gold, they wanted to be taken off the hook, and that's what Franklin Roosevelt did for them.

Actually, it was an act of propaganda genius Catherine, because Roosevelt turned the situation completely around with his Presidential Proclamation and the laws that were jammed through Congress without any discussion. The Fireside Chats, oh who was the bad actor here? Who was the evildoer? Who was the troublemaker? Why, these awful people want to hoard their gold, and who wanted to take their money out of the banks!

Well, let's turn that around and look at that another way. These people were the creditors who, in good faith, had given their money to the bank and expected to be able to get it back. When they went and did that, Roosevelt turned them into evil hoarders. Well, the logic of Roosevelt's argument is that if you or I possess anything, then the government and the banks have the right to come and take it away from us whenever they want to. That's literally what happened. Roosevelt is inaugurated on March 4, 1933, and he immediately declared a bank holiday on March 5, closing all banks the next day. You understand that into the depression went 15,000 banks and out the depression came about 8,000 banks.

Catherine Austin Fitts: Right.

Franklin Sanders: So you need to realize that what happened was a gigantic concentration of power. What the banks got, first of all, was to renege on all of their promises to pay depositors in gold. The government confiscated all the gold, put it in Fort Knox and then (the law is very iffy on this point) it appears that the Federal Reserve has title to the gold. In other words, the gold was effectively given to the Federal Reserve.

Catherine Austin Fitts: Here's where I'd like to point one thing out that's very interesting about this. In 1913, which we talked about last month, we gave a group of private bankers control of the Federal Government's finances. We end up with the New York Federal Reserve as the depository of the Federal Government, and the Federal Reserve System issues our federal currency. Then in 1933, we end up giving control of our household wealth to the Federal Reserve by turning in our household wealth (in the form of gold) to the Federal Government who then hands it over to the Federal Reserve. Now the private bankers control both government and house-

Hoover was on the point of declaring a bank holiday, and Roosevelt wouldn't cooperate with him...

holds, and if you look at what's happened in the last twenty years Franklin, is that the Baby Boomers' created this enormous bubble of retirement savings and assets and it's been stolen. Stolen through inflation, and stolen by pushing phony paper into pension funds and IRAs and etc. That could have never happened without these two conditions setting precedent. This is the foundation from which "the big steal" has now occurred.

Franklin Sanders: Right. I think that it is very, very helpful to think of those two dates, 1913 and 1933, as two stages in a coup d'état. By "coup d'état" I mean exactly what I'm saying; they took over the government, the banks took over the government. The first stage gave them partial control of the monetary supply the second gave them complete control of the money supply, and overthrew the constitutional system 100%. They seized power over the entire economy because now suddenly, everything depended on the rules that were promulgated out of Washington, and of course the banks were dictating those rules.

Let me explain to you the funny way they went about it. In 1917 there was an act passed called Trading With the Enemies Act. That act gave the president the power to regulate the import and export of gold and certain other credit transactions in view of World War I. As soon as the war was over, all of those powers expired unless another war occurred. The powers were on the books but they were not assumable in the absence of a declared war.

Roosevelt goes out and, under the terms of section five of the Trading With the Enemies Act declares that he has all of these powers to regulate gold and so forth and so on, but it's impossible; you can't have powers that depend on a war if there's no war. Roosevelt just blandly said that, oh well, we have an emergency that's the equivalent of a war and therefore I can do all of these things.

Roosevelt goes out and, under the section 5 of the Trading With the Enemies Act declares that he has all of these powers to regulate gold.

Catherine Austin Fitts: Right, and that's why The Patriot Act is so scary.

Franklin Sanders: Exactly! Because it grants all of these powers and it puts us, in effect in a state of perpetual war. Of course we know that war can't give a government any more power than granted by the Constitution at the beginning of the war, right? I mean, a war doesn't confer any new powers, but their consistent interpretation, going back to 1933 is that we have an emergency and therefore we can do anything that we want.

Let me just say something about the confiscation of the gold. Supposedly, everybody was supposed to go rushing in and turn in their gold, or they were facing ten years in the slammer and a $10,000, which back then would have been the equivalent of about $50,000 now. You know how many criminal prosecutions there were?

Catherine Austin Fitts: None?

Franklin Sanders: One. That one was a show trial.

Catherine Austin Fitts: Why? What did that guy do?

Franklin Sanders: He demanded his money from Chase! He filed suit against Chase.

Catherine Austin Fitts: I could have told you what happens when you pick a fight with JPMorgan/Chase.

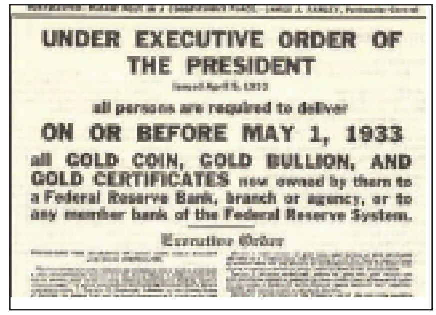
Franklin Sanders: Ha! Well anyway, he came out all right; I don't think he spent any time in jail, but they indicted him. He demurred to the indictment, and they went back and got a superseding indictment. He fought (the fellow's name was Campbell), so nobody ever went to jail. I don't know, and nobody does, and I've seen a lot of wild guesses, but I'm thinking that about half of the gold in the country was not turned in, and most of what was turned in was not in private hands, it was in the hands of the banks. You see, they went and seized the gold that was the easiest to get, which was the gold already in the banks, and they had of course, the full cooperation of the banks.

I want you to think about the difference between 1933 and 2010. In 1933, people still believed that the government could still be trusted and yet 50% of the people (or more) didn't turn their gold in.

Catherine Austin Fitts: Right.

Franklin Sanders: And today, do you think that 50% of the people of The United Stated believe that their government can be trusted?

Recorded October 14, 2010


UNDER EXECUTIVE ORDER OF THE PRESIDENT

all persons are required to deliver

ON OR BEFORE MAY 1, 1933

all GOLD COIN, GOLD BULLION, AND GOLD CERTIFICATES now owned by them to a Federal Reserve Bank, branch or agency, or to any member bank of the Federal Reserve System.

Executive Order

...everybody was supposed to go rushing in and turn in their gold, or they were facing ten years in the slammer.

6. The Nixon Shock 1971

Catherine: Okay, Franklin, the Top Ten Dates, we have five minutes to talk about the Nixon shock.

Franklin: Five minutes, Okay, I'm going to start talking really fast. I want to put it in context first, as a conspiracy. In 1913, they made paper equal to gold, bank paper. In 1933, they removed gold from domestic convertibility.

Catherine: We've discussed those two dates as part of our series.

Franklin: Right. On August the 15, 1971, Nixon repudiated the Bretton Wood agreement and removed the dollar's convertibility into gold internationally. Until then, other countries could redeem dollars with gold. If you put these three things together, you see the progress of the system to where gold was moved completely out of the system. You have to understand that 15 August 1971 was set-up in 1944 with Bretton Woods because Bretton Woods was a system that was bound to fail. Why is that? Because it set US manufacturers at a permanent exchange rate disability or disadvantage. They received depreciating US dollars and had their expenses increase because of the depreciating dollar, whereas foreign manufacturers received payment for goods they sold in the United States in gold. So everything that they received, they received in an appreciating currency and their costs were going down versus US manufacturers. It's not a surprise that by the early 1960's the US was having balance of payment problems because the US was exporting too much. That situation was set-up by Bretton Woods.

On August the 15, 1971, Nixon repudiated the Bretton Wood agreement and removed the dollar's convertibility into gold.

By 1964 there was a year in which the Treasury Secretary was complaining that the US had a $3,000,000,000,000 deficit for the whole year. Do you know what the November 2010 trade deficit alone was? $38,000,000,000! You saw in 2008 the trade deficit was $698,000,000,000. In 2010 through November, it was $458,000,000,000.

I'm comparing that 1964 figure with today so that you can see how much more it has grown. In 1961 the gold price was starting to rise as they set up the London gold pool. In 1963, Charles de Gaulle had France pulled out; he wanted gold for his US dollars. Here are the dollars, now give me the gold, saying this system wasn't going to work.

In 1963, Charles de Gaulle had France pulled out; he wanted gold for his US dollars.

The US threw rocks at de Gaulle, but he was exactly right because in 1969 the London gold pool failed, it broke down. All through this, the price of gold was rising. So by the time you get to the "Nixon Shock" inflation had increased because of the cost of the Vietnam War, the US is sending millions of dollars over seas.

Catherine: Oh we're just pushing dollars everywhere and that's when the Euro dollar market developed, so we just had more and more dollars accumulating overseas; the last thing we could afford was for them to come back and their foreign owners demand gold for them.

Franklin: The domestic spending was high too. The War on Poverty (which poverty won, eventually) and Medicare had started increased domestic spending ,and there was a growing mentality that the government had to take care of everything and we could just print money to pay for it all. What happened was that by 1970 the flight out of the dollar meant the gold coverage of the dollar from 55% to 22%. In other words before 1970 they could cover 55% of the dollars in circulation with gold but by that time this level of coverage had dropped to 22%. Nixon really didn't have any other choice; he was getting ready for an election year and he had to be perceived to be doing something. "Oh, what can I do? Ah, here!, I can do this!" One of his sixteen advisors said that they all spent more time about how they should make the announcement than they did to make the decision.

Catherine: I can believe that.

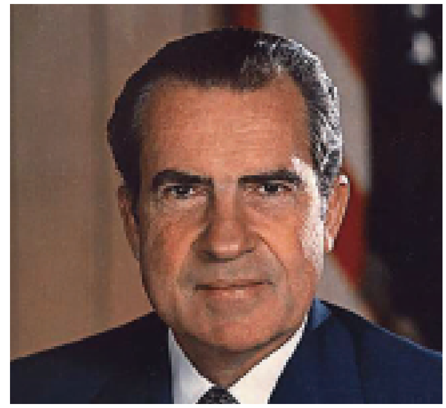
Franklin: I can believe that too. Nixon, in the fifteenth, completely surprising everybody (except those who had been watching the increase in the price of gold and the decrease in the dollar) announced wage and price controls, and then he announced and on imports of 10% and then he announced that the US was withdrawing from Bretton Woods. In other words, the US was reneging on its vow to convert dollars into gold for foreign claimants. What Nixon did in one fell swoop, other than completing that cycle from 1913 that I mentioned, was to put the world, for the first time ever, on a system of completely floating exchange rates. No exchange, on convertibility whatsoever and everything just went to hell

Catherine: Well you say that, but let me play the devil's advocate. Everyone who was within the dollar dominated economic world got a free ride for fifty years.

Franklin: Well, do you think that's helped them?

Catherine: No.

Franklin: I agree, but there's been no short-term pain for those who have benefited from this and for American government and the Federal Reserve who were able to export their inflation for a little longer. You and I know that they were gutting the American economy by doing that. What we see



...by the time you get to the "Nixon shock" inflation had increased because of the cost of the Vietnam War

today, where we have trade deficits that amount to seven hundred billion dollars a year is a country's whose manufacturing basis has been destroyed.

Catherine: Right

Franklin: But let me back to Bretton Woods. You introduce this enormous amount of confusion into international trade and into currency trading. Then, in the thirty-four year period before the US money supply had grown a monumental two times, (it had increased two fold in the thirty-four year period after the Nixon Shock) the dollar money supply increased thirteen times. So what it meant was that it was the end of any kind of discipline. You have to realize that as late as 1965 the Federal Reserve was still required to a 25% gold reserve against its issued currency.

Catherine: Right, and one of the points that I want to bring out is when you say, "it's the end of discipline" it was also the end of cultural discipline. What happens is that when people stop having to act in ways that are fundamentally economically healthy in the long term, you start developing all sorts of bad habits and practices and you get entire cultures running around. Go to any county in America and you find people playing the lottery, eating rotten food, behaving in all sorts of ways that are fundamentally not economic, and not learning new skills; it's all part of the non-accountability.

Franklin: It's not; can I take it to another level?

Catherine: Sure.

Franklin: It's self-destructiveness.

Catherine: Yes!

Franklin: The biggest problem with human beings is that we try to destroy ourselves. I'm not going to ask why; I'm just going to say that's an observed fact. People try to destroy themselves. If you've ever been around an alcoholic or drug addict then you really saw it big time, but everybody has a tendency to do that. What the Nixon Shock meant was the end of discipline and the raising of that self-destruction from an individual to a national and finally international level.

Catherine: Right.

Franklin: And that's what we see taking place.

Catherine: Right, and I hate to tell you, if you remember Bill Clinton's trial balloon about the gold standard, now not only are you agreeing with Wall Street but you're agreeing with Bill Clinton.

Franklin: [Laughter.] I really have to stop doing this.

Recorded January 13, 2011

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