A Special Solari Report

Precious Metals: *The Top Ten Dates in American History*

Catherine Austin Fitts
& Franklin Sanders

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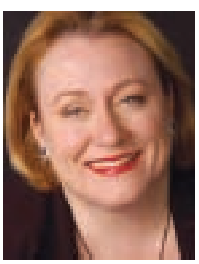

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INTRODUCTION: "Precious Metals: The Top Ten Dates in American History" was recorded during 2010 and 2011 as part of the monthly "Precious Metals Market Reports" on *The Solari Report.* For reading convenience, the transcript has been edited to present them in chronological order and polished for presentation. The original ten recordings are available in *The Solari Report* archive on the recording dates at the end of each section.

1. The Constitutional Convention in 1787

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

Franklin Sanders: In the early history of the United States there was monetary chaos. Each one of the colonies printed its 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. Added to that was the Continental Congress' huge issues of Continental currency which had sunk to near worthlessness. The Potomac Convention, which brought forth the Constitutional Convention, was primarily called to deal with that monetary chaos. Two monetary principles came out of the Constitutional Convention. First, states were forbidden to make anything but gold and silver a tender in 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, fixing the standard of "a dollar" as a silver coin that has three hundred and seventy-one and one-quarter grains (0.7734 troy ounce) of fine silver. Congress made that the standard coin of the United States. Congress also established gold coins—eagles, half-eagles, and quarter-eagles—valued at $10, $5, and $2.50 dollars. Those standards established by that first Congress are still valid law and have never been repealed. They designed the system to adjust the gold coins' content to world-market rates and did that twice—but gold is not the standard, the silver dollar is.

Catherine: Was the Constitutional Convention one of the ten most important dates in the history of money in the United States?

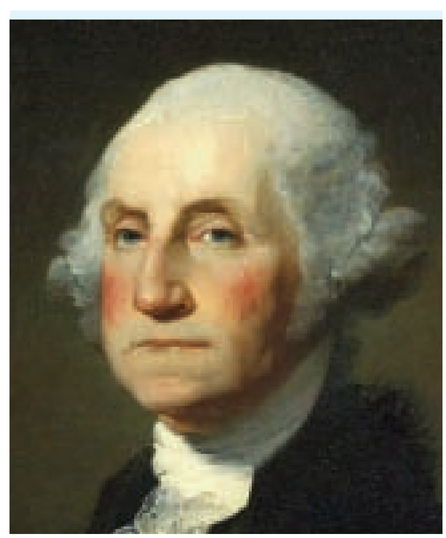
Franklin: Yes, it certainly was, because it set an unchangeable standard and it enabled commerce to flow with confidence. George Washington described this result in a letter shortly after the Constitution had taken effect. "Commerce," he wrote, "reappeared. People started doing business with each other again." Within two years, prosperity burst out everywhere. The new Constitutional monetary standards were the foundation. Since paper money had been introduced in the colonies a hundred years earlier, the various currencies had created confusion and suddenly that confusion was removed, and this allowed the United States' economy to blossom.

Catherine: Can you imagine feeling that we could all trust the trading system? It would remove that same monetary chaos we suffer under today.

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 and the Banking Cartel—1862–1863

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

Catherine: We're doing a series called "Precious Metals: The Top Ten Dates in American History." We talked about the 1787 American Constitutional Convention and its importance. We've been debating what the next most important date is—so take it away!

Franklin: You and I landed in a controversy as to which was the next most important date. You would think that the next most important date is 1913 when the central bank, the Federal Reserve, was established. That may be true, but I have to ask, "Which is more important, the baby or the conception? When does the thing *start?*" The embryo of the Federal Reserve, its first form, was spawned in the War Between the States between 1862 and 1863.

Lincoln needed some way to finance the war, so he not only passed the Legal Tender Act of 1862 that introduced the federal "greenback" paper money (a pure *fiat* money, legal tender but irredeemable in specie), but also the National Banking Act the following year. That act created a cartel, a sort of proto-Federal Reserve. Why create a cartel of banks? So that through these banks Lincoln could sell bonds to finance the war. Of course, this wasn't restricted to a wartime effort; 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 issued by the state banks, but not notes issued by the national banks. The national banking cartel created by the National Banking Act, continued until the Federal Reserve Act of 1913 transformed it into the Federal Reserve System.

Bear in mind these two things together: the banking cartel and the currency. It's very important to understand that the Hamiltonians, which by Lincoln's day had become the Whigs, wanted a central bank. That was part of their threefold platform: (1) public works for national improvement—in other words, building tracks for railroads, canals, and public improvements of all kinds at taxpayers' expense; (2) a high tariff; and (3) a central bank.

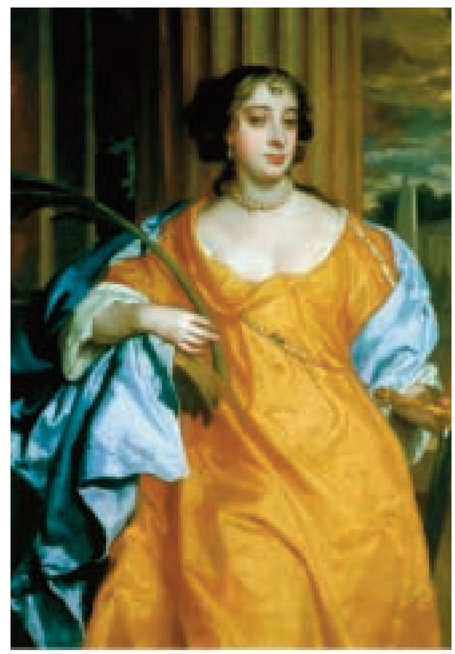
This had been Alexander Hamilton's program, too—a high tariff and a central bank. The Hamiltonians tried to start a central bank with the Bank of the

North America about the time the Constitution was adopted, but that failed. Later the First and Second Banks of the United States became sort of *de facto* central banks, but both eventually ailed. However, Lincoln really solidified the national banking cartel with the National Banking Act and Legal Tender Act.

By these acts the federal government took control of the banks or, more precisely, the banks took control of the federal government. Very few people realize the importance of these acts today. It's intriguing that although $350 million of these legal tender notes ("greenbacks") are still authorized, in the 1960s and 1970s the Federal Reserve removed all of the greenbacks from circulation. Nothing could be allowed to compete with their own *fiat* money.

Catherine: We talked earlier about the East-West trading of the gold/silver ratio. I would love for you to give us a little background on that. Explain how silver shifted out of Europe and into China.

Franklin: You can think of history as flows of silver and gold back and forth between East and West. From Roman times silver becomes undervalued at one place or another, and that differential becomes enormously significant. This appears 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. That means 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 gold ounce bought only ten silver ounces. Silver was either tremendously undervalued in Britain or overvalued in China.



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

After 1660 when the Stuart monarchy was restored in England, Charles II ran an extremely corrupt government. Ancient law prevented silver from being exported from the kingdom. Through Charles' mistress, Barbara Villiers (1640–1709), a faction belonging to the East India Company managed to pass a law allowing them to ship silver out of the country.

Catherine: Looking at financial service reform, nothing has changed.

Franklin: Right, except the prostitutes are different! Now they are in Parliament and Congress—not the king's bed. 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 which, even at wholesale, are worth 50 percent more than you paid for them. In China your silver buys 50 percent more than in England. Return to England, sell them at a two-hundred to three-hundred-percent margin. It doesn't take long for "your ship to come in," and loaded!

Catherine: Right, that's called WalMart.

Franklin: The same sort of flow. 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 later, Britain fought the Opium Wars with China to balance their silver deficit-of-payments problem with India and the Far East by forcing the Chinese to buy opium grown in India and pay for it in silver. The Chinese imperial government refused. They knew what the opium would do to their people and didn't want the opium in their country, 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.

Come forward to modern times and you discover that Roosevelt and silver are partially responsible for the 1948 victory of the Communists in China. In the 1930s Roosevelt engaged in a nearly seven-year manipulation trying to raise the world silver price. Since China was still on a silver standard, Roosevelt's silver manipulation made Chinese exports more expensive and wreaked havoc on the Chinese economy. That forced China off the silver standard and led to the Nationalist government inflating the currency. Eventually the inflation and the economic pain strengthened the Communists' hand against the Nationalists.

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 next date of "Precious Metals: The Top Ten Dates in American History," is … Franklin, take it away!

Franklin: Well, 1873 stands high in my mind.

Catherine: Ah, I remember it well!

Franklin: No, no, you don't. Old as I am, I don't even remember it! In that year occurred "the crime of '73:" The United States congress demonetized silver. They did it by the back door—the typical machinations we expect today. They passed a new coinage act but that act simply *omitted* any provision for minting silver dollars. That alone reduced the money supply by about a third.

Why is this so important? Not for the economic deflationary effect alone. You see, back then the bankers were *net bondholders,* so they purposefully pursued a deflationary monetary strategy from 1865 to 1913. Since mankind has been on this planet the monetary system has always included both silver and gold, and for a long time it included copper as well. But when those other metals are removed and the "dollar" is defined as so many paper units per ounce of gold rather than so many ounces of silver, then objectivity has been banished from the system.

With the dollar defined as so many grains of silver or so many grains of gold, then one unit is valued in terms of the other. When only one metal is the standard—a monometallic gold standard—then the currency is defined not by silver, but by an abstract, notional paper unit. Sooner or later, the government will 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.

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

Catherine: Our next date in "Precious Metals: The Top Ten Dates in American History," is the creation of the Federal Reserve, but that's such a big topic that we've decided to split it up into two 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: First go back to 1678, the year the first *fiat* paper money appeared in the colonies that eventually became the United States. Massachusetts had sent 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 paper money issue. From that time forward, all these independent colonies issued paper money, all at different rates—a nightmare. The various currencies depreciated at varying rates. Eventually gobs of paper currency were circulating but nobody really knew what it was worth.

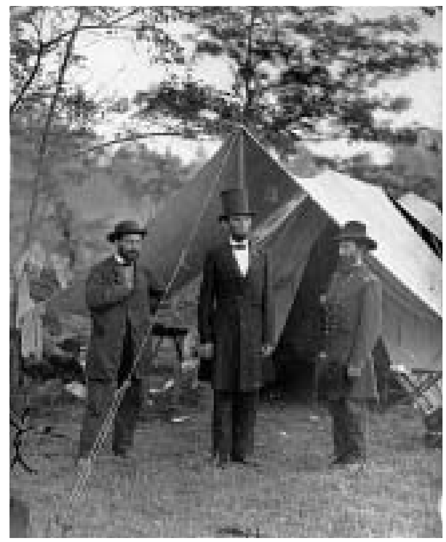
People were constantly gypped and cheated. By the time of the American Revolution, it was a huge problem. The Continental Congress made the problem worse by issuing its own currency, the "Continental," which depreciated massively during the war because they never backed it with anything. In fact they didn't even try—they just issued more paper money when they needed it.

The Continental dollar had no backing behind it.

The colonies had one hundred years of experience with the perils of *fiat* money before the United States was founded and then comes the Constitutional Convention. The Constitutional Convention was called in part because of the crisis that *fiat* money had created. There couldn't be any commerce between the states because there was no way to pay for the commerce with only these different state *fiat* currencies in circulation. The Constitution took from the states the power to make anything other than gold or silver coins a tender in payment of debt.

Distinguish carefully! The Constitution did not strip them of power to make a tender altogether but only *limited* that tender to gold and silver coin. Courts interpreted that variously from then until the beginning of the War Between the States. In a number of court cases states founded state banks or they issued warrants or other paper money and the Supreme Court universally ruled that was unconstitutional. No debt can be "paid" with paper money or bank notes, but with the only money in this country, the gold or silver coin. Specie.

All of that history lies behind what happened in 1861. When the war began, Lincoln needed a network to finance the bonds that financed the war. In 1862 and 1863 they set up an embryonic Federal Reserve with the Greenback Act and the National Banking Act. The latter act created a cartel of national banks and basically aimed to put all the state banks out of business. It certainly took them out of the money-creating business. So banking centralization began in 1863.



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

Now, return to the end of the Revolution. The ink was not dry on the Constitution before conspirators were plotting how they were going to get a central bank in the United States. By that time the Bank of England was nearly a hundred years old already, and they knew how profitable it was. They tried with the 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 were lively political issues: a central bank, the dangers of banking to the nation, banking as a parasite on the economy, and the danger of *fiat* money. All of the money issues were lively political issues right up until the War Between the States.

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

Franklin: Yes, incredibly more knowledgeable since they are virtually 100 percent ignorant today. It's astonishing. If you want to feel ignorant, go read some of those cases where these judges, who are obviously lawyers, actually have a deep philosophical understanding of money's economic and social mechanics. What happened? What changed? The war created a plutocracy, a small but extremely powerful cartel of insanely rich people, those who had amassed vast fortunes from financing and supplying the war. This plutocracy had never before existed in the United States.

When the war began DuPont was just a sleepy little powder manufacturer, one of many in the North. The war made them enormous, so enormous that by 1905 they could split the entire world up with Imperial Chemical. They said, "Okay, we're going to sell gunpowder to all the countries on *this* side of the line and you can sell to all the people on *that* side of the line."

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

They literally divided the world in two—or the spoils, I should say.

Finance evolved the same way. The banks became immensely powerful. During the war the banks bought government bonds with paper money and with their credit, which they created out of thin air under the auspices of the law. They paid for these with paper money worth as little as 50 cents on the gold dollar. The law provided that the interest only on these bonds would be paid in gold, but the principal repaid in paper money. After the war, the banks got the Credit Strengthening Act passed in 1868, which provided that not only the interest but also the *principal* on the bonds would be paid in gold.

Since the bankers were net bondholders in that postwar period they initiated several other acts that deflated the currency. What happens under a monetary deflation? The value of every unit of currency steadily rises. Not only the interest but also the principal that the bondholders recovered grew in value and in purchasing power.

Meanwhile, the whole country was locked into a post war depression. That would have occurred anyway by removing all that war-created demand, and it takes a few years for the economy to readjust.

But the government's deflationary policy ensured hard times into the early 1890s. As we talked about in another segment, silver was demonetized in 1873, which further decreased the money supply. The lines were drawn after 1873 and a huge anti-banking party arose, the Populists. Nowadays everybody sneers at the word "populist," but the Populists were trying to counterbalance the banks' economic power over the people, and for that deserve our respect. They supported bimetallism and free silver coinage, and they opposed a central bank. But in 1907 there was another and terrible banking panic, and with much more window dressing that was put forward as the excuse for a central bank.

Congress sent a big commission over to Europe to investigate central banking, and they produced a fourteen-volume report that nobody ever read, except for the last line that concluded that America needs a central bank.

This is the background to central banking in the United States. There was huge opposition to a central bank and that's why the Federal Reserve Act that created the bank was passed in the final hours before Christmas, December 23, 1913 when few were present besides the bill's proponents. The others weren't there to vote against the Federal Reserve Act.

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

Recorded August 12, 2010

The U.S. Greenback

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

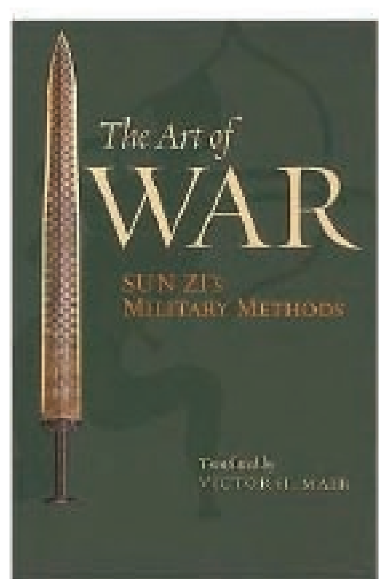
Catherine: Now it's time to talk about 1913 and the creation of the Federal Reserve. I just looked at a chart from the American Institute of Economic Research that shows the decline of the US dollar's purchasing power since 1913. They estimated, Franklin, that the dollar's decline has wiped out $19,000,000,000,000 of American savings—what you would call "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 very few people realize how much has been stolen. With that, take it away.

Franklin: Let's start with that thought, because the embryo of the Federal Reserve is what we talked about last time, the Greenback Act and the Banking Act of 1862. Those two acts created a system to finance the War Between the States. Now remember that always in the past the limiting factor on war was the belligerents' ability to pay for it.

You can wage war for a year or two years, but war becomes 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. At some point taxpayers revolt

Catherine: When Victor Mair came on *The Solari Report* to discuss his translation of Sun Zi's *The Art of War*, he walked through—both in the book and in our discussion—the history of the Chinese military. I realized—like an explosion went off in my head—that the reason Europeans could throw all their resources at making 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. That's true, and, of course, Sun Zi is writing about twenty centuries ago, before the ability to finance through a central bank or the existence of *fiat* money. Never forget: The purpose of a central bank is to fund an enormous state. That's the whole purpose whether the state is at war and needs money for that, or whether the state intends to become the welfare mother and assume the costs of labor for industrial capitalism.



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

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

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. The Federal Reserve was created to pave the way for that state.

This is a very broad view, but I believe that from the post-War Between the States period forward the industrialists, plutocrats, were planning for that world where they would enjoy a docile, eager-to-consume labor force and where the state would assume the costs of the labor force when it does not work. Think back to George Fitzhugh (1806–1881) who explained in *Cannibals All!* that when you end slavery or serfdom, someone other than the master must pay the social costs of labor. Labor has to be cared for in infancy, infirmity, and old age. Under slavery and serfdom, the law required the master to pay for that because he profited from their labor. With the master gone, who will pay? In the free market with so-called free labor *nobody* is paying for them. Laborers are so desperate for jobs that they will bid down the price of their own labor to a starvation wage. So, if you want the state to assume *for the employers* all those costs through social security, welfare, childcare, unemployment compensation, Medicare, and other programs, then the state can't tax enough to do it. People will revolt before they will pay that much in taxes and therefore a central bank must exist to create money out of nothing and collect the hidden inflation tax out of taxpayers' pockets.

The Federal Reserve System was created in 1913 with the enactment of the Federal Reserve Act.

Catherine: One of my scariest realizations while 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 his labor or the value of his small business, but turn around and give him a two-thousand-dollar tax refund, then you would gain his political support. So people would always take an indirect loss of $10,000 to $20,000 in exchange for a direct payment of $2,000.

Franklin: Right. Because most of them never discover the indirect loss. You have to recognize that the Federal Reserve was set up for World War I and the state's expansion into all these areas into which it's expanded after 1913. I distinguish between "industrial capitalism," and "capitalism" or "free enterprise." The Great Depression must be understood not as a repudiation of industrial capitalism but as industrial capitalism rationalizing itself when it broke down. 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 must grasp that means "the persons who control the government are taking over the economy."

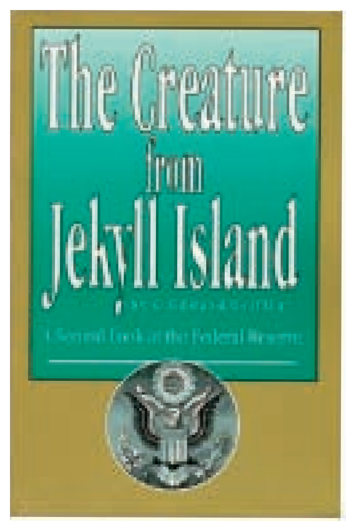
Back to the Federal Reserve, having laid that foundation. In 1907 there was a huge banking panic. J. P. Morgan, the agent of the Rothschilds in the United States, stopped it. The Rothschilds were, of course, an enormously wealthy European banking family that exercised colossal power then and now. Many believe that Morgan precipitated the panic 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, Congress appointed a very decorative but very pointless committee to sail 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 they were all bankers or banking flunkies on the committee, it's no surprise what they came back with. The United States was politically very suspicious of that idea, and very suspicious of Wall Street and the New York banks.

Then a group of New York bankers met in secret at Jekyll Island. You mentioned G. Edward Griffin's *The Creature from Jekyll Island.* He tells the whole story: How they took a secret train down to a private estate on Jekyll Island, Georgia, and there they cooked up this Federal Reserve Act. I've visited the house. Then they came back and Senator Frank Vanderlip, one of the relatives of that whole interbred group of New York and New England families, pushed the bill through the Senate. First, though, they got Woodrow Wilson elected, who was a naïve incompetent, and then, right on the twenty-third of December, 1913, after most of the senators and representatives had gone home, they jammed the Federal Reserve Act through Congress, and Wilson signed it. Not many people really understood what had been done.

From both the First and Second Banks of the United States they had learned that the crisis of their existence occurred when their corporate franchises expired after 20 years. In the act that created the Federal Reserve there is a 20 year life for the corporation, but later they removed that. It's perpetual, or really, a "perpetuity," an advance claim on the wealth of the nation—*forever.*

Catherine, what's so hard to grasp about the whole thing is the horror. We live in this environment so it's hard for us to see, but when you stand back you understand that the Federal Reserve Act was a *coup d'état*. The Congress gave, to a *private* corporation, the power to create out of thin air money



***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.**

with legal-tender status. This means that they can legally force all the rest of us to take their private money under penalty of law, or forfeit entirely our claim for payment.

Catherine: Now there's something else the Federal Reserve Act conferred. Remember that the New York Fed, the flagship of the Federal Reserve system, serves as the depository for the U.S. government. Essentially Congress gave them 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 something even more important is here. The Fed controls interest rates—the price of money and everybody uses money, right? If I gave Catherine the power to control the interest rate, could Catherine make money knowing what interest rates would do 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 e-mailed 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, as Nicholas Negroponte said, that in a digital age data about money is worth more than money. All of the responses to my questions said "That is confidential information." You're talking about the ultimate insider trading, particularly when you can create the money used to make your bets. That's an infinite rate of return.

Franklin: Exactly. Creating money out of thin air is the least of the powers the Federal Reserve Act conferred. It gave them *complete* control of the economy. Control of the interest rate alone would give them that. None of the conspirators thought that Woodrow Wilson would give the notes of the Federal Reserve legal-tender status, but he volunteered that.

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

Franklin: Did he really? The point is that was a seizure of power, a coup d'état. They seized control of the state. Looking at the entire history of the United States, this fight for honest money has been fought throughout US history. When the Federal Reserve was established, the banking party won, but the war isn't over yet.

Catherine: Yes, and the thing that says it all is a picture: the purchasing power of the dollar ever since. You are watching an extraction of wealth

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 stock market bubble that led to the crash in 1929 that sent the country into the Great Depression.

engineered by the system that went into effect in 1913. That decision, to establish the Federal Reserve, has caused Americans to lose nineteen trillion dollars of wealth.

Franklin: Right. You mentioned AIER, the American Institute of Economic Research. They publish a fabulous chart showing the dollar's purchasing power. From 1792 until 1913, the purchasing power of the dollar stays 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, 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: What can you tell us about what happened in 1933?

Franklin: You've forced me to go back and do some reading and a little bit of studying. As I contemplate 1933, I realized that I had far, far undervalued that event's importance. Again the banks staged a coup d'état against constitutional government and they overthrew the constitution.

They finally eliminated constitutional gold and silver money. That may not mean much to your listeners, unless they recall that for over 130 years the constitutional money of the United States was gold and silver.

Here's what happened: The banks were bankrupt. By the way, eliminating the banks' requirement to pay out gold was the "bailout" of 1933. So, if you think TARP was big with $800 billion (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 country's entire gold stock? That's what the banks ended up with. The banks were bankrupt, but at that time they were required to keep a substantial reserve against their liabilities, a 35% or 40% reserve. This reserve was in different forms, part in bonds and part in gold, and they were required to pay out gold when people withdrew their deposits.

When the financial crisis developed, the banks wanted a bank holiday. What is a "bank holiday"? A suspension of the law and justice. In a bank holiday one bunch of people (bankers) take your money and make promises to give it back on call (when you want it). Then, when they can't do it because they loaned out, spent, or lost the money, they go whining to the government to bail them out illegally. That's what a bank holiday is. It means there's a run on the bank. The people don't trust the bank and demand 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." Hoover was on the point of declaring a bank holiday, but Roosevelt wouldn't cooperate with him because Roosevelt had schemes of his own. Hoover would have done a lot of the same things, but perhaps without suspending gold payments. The bankers wanted to be taken off the hook, and that's

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.

what Franklin Roosevelt did for them.

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, these people who wanted to take their money out of the banks!

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 exercised their rights, Roosevelt turned them into "evil hoarders." 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 declares a bank holiday on March 5, closing all banks the next day. Into the Depression went 15,000 banks and out of the Depression came about 8,000 banks. The competition was thinned.

Catherine: Right.

Franklin: The gold seizure was a gigantic concentration of power. What the banks got, first of all, was a free pass 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: 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 federal government's depository, and the Federal Reserve System issues the federal currency. Then, in 1933, we give 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 households. If you look at the last 20 years, Franklin, the Baby Boomers created this enormous bubble of retirement savings and assets, and now it's been stolen—stolen through inflation, and stolen by pushing phony paper into pension funds and IRAs, etc. That could have never happened without these two precedents. From this foundation "the big steal" has now occurred.

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

5. Roosevelt's Confiscation of Gold—1933

Franklin: Right. It is very, very helpful to think of those two dates, 1913 and 1933, as two stages in a coup d'état. I mean exactly what I'm saying: They seized power. 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. Now, suddenly, everything depended on the rules promulgated by Washington, and, of course, the banks were dictating those rules.

How did Roosevelt justify the seizure? In 1917 Congress passed the Trading with the Enemies Act. In view of World War I that act gave the president the power to regulate gold imports and exports and certain other credit transactions. As soon as the war was over, those powers expired, *unless* another war occurred. No declared war, no powers.

Under the terms of Section Five of the Trading with the Enemies Act, Roosevelt declares that he has all of these powers to regulate gold and so on, but it's *impossible.* You can't have powers whose existence depends on a state of war if there's no war. Roosevelt just blandly said, "Oh, well, we have an emergency that's the equivalent of war and therefore I can do all of these things."

Catherine: Right, and that's why the Patriot Act is so scary.

Franklin: Exactly! Because it grants wartime powers and it puts us into a state of perpetual war. Of course no war can give government any more power than the Constitution granted before the war began, right? A war doesn't confer any *new* powers, but since 1933 government has consistently interpreted it this way, that we have an "emergency" and therefore we can do anything that we want.

In the gold confiscation, everybody was supposed to rush in to turn in their gold, or face 10 years in the slammer and a $10,000 fine, which would equal about $50,000 now. Guess how many criminal prosecutions took place?

Catherine: None?

Franklin: One. That one was a show trial.

Catherine: Why? What did that guy do?

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

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

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

Roosevelt goes out and, under Section Five of the Trading with the Enemies Act, declares that he has all of these powers to regulate gold.

Franklin: Ha! 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 else ever went to jail. My guess is that half the gold in the country was not turned in, and most of what was turned in was not in private hands but in the hands of the banks. Government seized the gold that was the easiest to get, which was the gold already in the banks, and they enjoyed, of course, the full cooperation of the banks.

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: Right.

Franklin: Do think that 50% of the people of the United States *today* 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 10 years in the slammer.

6. The Supreme Court Rules on the Gold Seizure—1933–35

Catherine: Okay, Franklin, the next date in "Precious Metals: The Top Ten Dates in American History," is 1935, a year that will also go down in infamy.

Franklin: This is the year they put the icing on the cake of the 1933 gold seizure.

Catherine: It was ugly! Get ready!

Franklin: It was actually in 1934 and 1935, but this is when the Supreme Court showed its true colors. The seizure occasioned a number of lawsuits.

Catherine: That's the 1933 confiscation.

Franklin: Right, the 1933 gold confiscation. Most of the gold that was confiscated was stored in banks but it also occasioned lawsuits about government bonds, because some government bonds had been guaranteed payable by specification in gold coin. And the same thing was true for private corporate bonds, primarily railroad bonds.

There were two different groups of cases that worked their way up to the Supreme Court towards the end of 1934. There were four cases, and, actually, one of them was a combined case. One was a suit over the payment of private bonds that were payable in gold. Then there was another suit over U.S. gold certificates. Then there was a third suit about U.S. government gold bonds.

What's interesting about all four of these lawsuits? The litigants all *conceded* the validity of the 1933 gold seizure. The only controversy that they raised was the amount of compensation: They should have been paid more for the gold they lost. That was the only issue, and every one of them made a big deal about that in the briefs that they filed. The Supreme Court made a peculiar decision. They said that because the gold was seized, you couldn't really have had the gold to sell in Europe at the higher price. Of course, that's like a snake eating its tail, but that was their reasoning, so the only compensation the government was liable to give was whatever the government decided it wanted to give.

In 1934 the federal government began the seizure of gold.

And at the same time another set of cases was also moving up through the system. The difference was that the claimant here, a New York lawyer named Frederick C. Campbell, challenged the constitutionality and legality of the gold seizure. Campbell had $200,000 worth of gold bullion stored with Chase National Bank of the City of New York. When the government seized the gold, he did not file a return reporting that he owned the gold, which supposedly was required.

On the other hand, Chase dropped the dime on him, reported the gold to the IRS, and then turned the gold over to the IRS. So Campbell really got his back up and he sued. He sued Chase for the return of the gold, then he sued the U.S. Attorney General, a fellow named Medali, who indicted him on two counts of not reporting this gold. The government won on one count, they lost on the other count, and all these three cases were working their way up at the same time and Campbell filed three petitions for *certiorari* with the Supreme Court.

"Certiorari" is a petition asking the court to accept and hear the case, because the Supreme Court is not required to take cases. They meet and decide which cases they will take. Campbell has these three cases. The government, the silly U.S. government, filed an appeal on the count he had been acquitted on. They took up an appeal, which they could do at the time—they can't do that anymore—on this count that they had lost, and then
they developed cold feet. So they filed a motion to withdraw the appeal but they never bothered to inform Campbell. He found out about it reading the newspaper the same day the Supreme Court heard the motion and granted it.

Campbell still has these other two lawsuits and petitions for *certiorari* in front of the Supreme Court. The Supreme Court meets on October 8, 1934 to decide which cases they would take, and all of these were on the table in front of them, both the cases where the claimants did not controvert the seizure's constitutionality, and Campbell's cases, which did object to the seizure as illegal. Here's what they did. They rejected *all* of Campbell's appeals and they accepted *all* of the other appeals, which means they *dodged* the issue of the gold seizure's validity and constitutionality—so they wouldn't have to make any kind of ruling on the constitutionality of the seizure.

Catherine: Mean trick. All they want to do is negotiate price.

Franklin: That's exactly right. Here's the odd thing now. It gets stinkier still. In the gold-clause cases that were accepted and where opinions were written, there were four dissenting justices. And these four dissenters wax full of moral outrage about what an awful thing had been done in the seizure, and it was the end of the country and immoral, and all this other verbiage. But

Campbell had $200,000 worth of gold bullion stored with Chase National Bank in New York.

A poster from one of the key films from the Great Depression, *Gold Diggers of 1933*:

“

wait! It only took four votes to accept a case for a hearing. These same four people met on October 8, 1934 and *refused* to take Campbell's cases which address that very question. *It was a fix.* The whole thing was a fix to dodge the entire issue. Ex post facto, after the fact, the Supreme Court justified the seizure and made it impossible for anybody to get justice in the face of Roosevelt's theft.

Catherine: They couldn't question the confiscation and they couldn't question the price. I feel terrible for Mr. Campbell, but he's not alone. You know how many Americans have lost money thinking that Chase and the government are separate institutions! *(Laughter)*

Well, Franklin, thank you so much. It's always a pleasure. Do you know what number seven is going to be?

Franklin: We're going to talk about the repudiations of silver certificates that happened from 1967 to 1968. We'll talk about that. The government reneged on redeeming silver certificates.

Catherine: The government reneged? Oh, no!

Franklin: I know it's hard to believe. One of those very rare events in history.

Recorded April 14, 2011

A sequel to *Gold Diggers of 1933* was produced in 1935, and entertained a contemporary audience that had yet to see the back of the Great Depression.

7. Repudiation of the Silver Certificates—1967

Catherine: We're going to talk about the 1967–68 repudiation of the silver certificates.

Franklin: U. S. government monetary policy with silver, beginning with Roosevelt, set the stage for the gigantic silver bull market that began in 1960. The first leg of that market peaked in 1968. It also probably motivated the Hunt brothers' later silver purchases and it certainly set the stage for the gigantic bull market of the 1970s.

Here's how that started: Roosevelt was trying to manipulate the silver price upward and accumulated a huge pile of silver. By the 1950s, the stockpile had reached 3.1 billion ounces of silver. In the early 1950s the Treasury also became the largest supplier of silver to industry. They were selling silver at 90.5 cents an ounce, nearly 39 cents below the statutory silver price of $1.2929 an ounce.

Catherine: Franklin, where did they hold the silver?

Franklin: Goodness gracious, I can't answer that question. Where would you put 3.1 billion ounces? They've got a big closet in D.C. somewhere.

In 1959 the market price of silver rose above 90.5 cents and, to make matters worse, vending machines had arrived with a *huge* new demand for silver coins—in the face of flat mining output. The more silver that the Treasury sold, the more the price rose, and it was obvious that some kind of collision was coming.

Under the Silver Purchase Act of 1934, Roosevelt had shut down silver-futures trading in August 1934. In June 1963 it cranked up again and by September 1963 the price of silver had risen above the $1.2929 statutory level. At that point it became profitable for people holding silver certificates to take them to the Treasury, swap them for silver, and then sell that coin on the open market: They could realize more selling it as bullion than its statutory legal-tender value. What a dilemma for the Treasury! Not only were they suffering a drain of silver from other directions, but they also were required by law to maintain a certain silver reserve against all those silver certificates. Treasury could easily envision a time when they would have to buy silver on the market at a price *higher* than $1.2929 an ounce just to

A picture of a 1934 Silver Certificate (top image is the obverse of the certificate; bottom image is the reverse of the certificate)

The Silver Act of 1934 required the U.S. Treasury Secretary to purchase silver in large quantities and allowed President Roosevelt to nationalize all private silver holdings.

maintain their silver reserve.

The same thing had happened in 1853, almost 100 years before this, when the world-market price of silver threatened to rise above the statutory price. At the time, Congress still had a little integrity left. Until that time the dimes, quarters, and halves had contained one half, one quarter, or one tenth of the amount of silver in a dollar, so people were pulling them out of circulation and melting them. Congress solved that by reducing the silver content of the subsidiary coin (not the dollar coins) by 6.5%.

In 1964 Congress faced the same problem, but with considerably less integrity. They voted to remove silver from the coinage altogether at the end of 1964. That's when you began to see these debased cupro-nickel sandwich coins. Oh, they made a forty-percent silver half-dollar, but that was just a pale shell of its former glory.

In 1964 and 1965 the realizers saw the U.S. government removing silver from the coinage and they immediately began to hoard silver coins. That made sense because history records that whenever a nation removes the silver from its coinage, a hyperinflation will follow.

Yet silver kept disappearing from the government's coffers, threatening to deplete the silver-certificate reserve, so finally Congress had to act. They did the exact same thing that they've always done since 1861, whenever they land in a monetary tight spot: They reneged on their promise. In this case, it was the promise to redeem the silver certificates for physical silver.

On June 24, 1967, Congress passed a law that warned the public that they had one year to redeem silver certificates for silver. After that, the U.S. government would no longer redeem them. That set off a rush to buy silver certificates. Why? Because silver certificates offered a way that you could buy silver at below market price. The Treasury did not really show a good grace about the whole thing. They had stopped paying out silver dollar coins for silver certificates in 1964 and when the silver rush began in 1967, they redeemed in the trashiest forms they could. They literally paid people in silver shot or they paid in "grease bars" which weighed roughly 100 ounces. Weight was written on them in Magic Marker.

Catherine: Oh, no!

Franklin: They were odd weights, without any manufacturer's mark or fineness stamp—only the number of ounces marked in grease pencil or Magic Marker. The redemptions went on until June of 1968. When it all began on June 1, 1967, silver was selling for $1.32 an ounce, only about 2% over statutory value. A little less than a year later, on May 20, 1968, silver had reached $2.65, more than double the price 11 months before and *twice* the

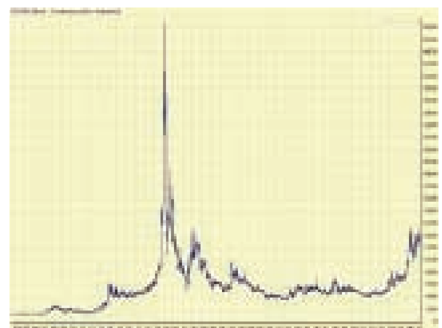
Gresham's law, named after Sir Thomas Gresham (1519–1579), an English financier, is an economic principle "which states that "when government compulsorily overvalues one money and undervalues another, the undervalued money will leave the country or disappear into hoards, while the overvalued money will flood into circulation." It is commonly stated as: "Bad money drives out good."

The Treasury literally paid people in silver shot.

statutory value. In that same period, the gold/silver ratio had dropped to 13.5, about half of its value a year earlier. 1968 marked the first blow-off episode of the 1960–1980 silver bull market.

Don't miss this point: The repudiation cut the last link with real money for the domestic U.S. population. In 1933, when the U.S. government had reneged on gold convertibility, American citizens domestically were still able to use and get silver, silver coin, silver dollars, and silver certificates. But after silver certificates were repudiated, American citizens could no longer secure gold or silver money from any government source. So, from 1968 forward the U.S. domestic monetary system consisted only of *fiat* money, chiefly the private bank notes of the Federal Reserve. Private money had been substituted for all forms of public gold and silver money.

What was the aftermath? The profits from that silver-certificate rush were significant enough to attract other investors and to set off the next round in the silver bull market. In the late 1960s Jerome Smith wrote a book called *Silver Profits in the 70s*. Good book. Good forecast. That sparked interest in a lot of other people like Harry Browne, and a whole crowd of newsletter writers and bloomed into an enormous publishing and investment industry promoting hard-money investments.



On January 17, 1980, silver hit $50 per ounce. At that point in time, the Hunts' silver position was worth $4.5 billion. This caused chaos, as there was no silver to be had to supply, and the Hunts were driven to ruin.

Then along comes Bunker Hunt. Remember that he hadn't just inherited wealth, but had become wealthy by his own efforts. His father had made a huge fortune, but he parlayed that family wealth into a fortune all his own. He started buying silver in 1972 or '73. He later said he couldn't remember when he started buying it. And contrary to government propaganda, Bunker Hunt and his brother Herbert didn't corner the silver market.

They bought a lot of silver and they had a lot of rich friends. They told all their rich friends—some of them happened to be Saudi oil sheiks—to buy silver. When silver went crazy in 1980, the government and the head of the Federal Reserve, Paul Volcker, scapegoated the Hunts, blaming everything on them. To keep Wall Street from crashing in March 1980 after silver peaked, Paul Volcker had to arrange a bailout for the Hunts—not because he liked the Hunts, but because all of Wall Street would collapse if he didn't. However, throughout the rest of the 1980s, the government, especially through the IRS, sought vengeance against the Hunts. In fact, Bunker took bankruptcy in 1988. The lesson is that Wall Street does not like to be beaten, especially by an upstart Texan.

The Hunt brothers before Congress.

Catherine: Well, Texas got back at them in the 1980s with Iran-Contra, because when you look at all the mortgage fraud, Texas got most of the money. We have a couple of quick questions from subscribers before we go to "Let's Go to the Movies."

7. Repudiation of the Silver Certificates—1967

One of them I just wanted to address. The question is, do you think JP Morgan Chase still has a huge short position? This is something Franklin and I've covered before. I don't think JP Morgan Chase has a short position in silver. I think JP Morgan Chase is an agent for the Exchange Stabilization Fund, which is a U.S. Treasury fund. Morgan is managing the U.S. government position, and they probably have freedom to use the inventory on the silver exchange-trade fund, SLV, to help them do that.

If you go to my blog and search for "Catherine and silver," last week I put up a radio show from January about why buying silver to crash JP Morgan would not work, because you're basically trying to crash the U.S. government, and it's a whole different kettle of fish to crash somebody who's got a nuclear arsenal. I don't know if you want to add anything to that, Franklin.

Franklin: No, that's exactly the way I look at it. I don't doubt that there's been a huge silver manipulation. I believe they had to manipulate the silver because Larry Summers and Ruben were trying to lower interest rates and they had to suppress the gold price to do that, and, in order to suppress gold, they had to suppress silver. But, JP Morgan Chase would never have undertaken to operate as their agent if they had not had full coverage.

Recorded May 12, 2011

"If this country is worth saving, it's worth saving at a profit."

—Herbert L. Hunt

8. 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'll talk fast. 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: Paper superior to gold domestically.

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

Franklin: Right. On August 15, 1971, Nixon repudiated the Bretton Woods agreement and repudiated 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 Fed's progress toward removing gold from the system entirely. You have to understand that August 15, 1971 was set up in 1944 with Bretton Woods because Bretton Woods was bound to fail. Why? Because it set U.S. manufacturers at a permanent exchange-rate disadvantage. They received depreciating U.S. dollars and saw their expenses increase because of dollar depreciation, 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 dropping versus U.S. manufacturers. It's not a surprise that by the early 1960s the United States was having balance-of-payment problems because the United States was importing too much. Bretton Woods made all that inevitable.

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

By 1964 a year arrived when the Treasury Secretary was complaining that the United States had a $3,000,000,000 deficit for the whole year. Do you know what the November 2010 trade deficit alone was? $38,000,000,000! In 2008 you saw a trade deficit of $698,000,000,000. In 2010, through November, it was $458,000,000,000.

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

I'm comparing that 1964 figure to today so that you can see how it has metastasized. In 1961 the gold price was starting to rise as they set up the London gold pool. In 1963 Charles de Gaulle pulled France out, demanding gold for his U.S. dollars, saying this system wasn't going to work.

The United States threw rocks at de Gaulle, but he was exactly right because in 1969 the London gold pool failed. It broke down. All through this gold was rising. By the time you get to the "Nixon Shock," inflation had increased because of the cost of the Vietnam War. The United States is sending millions of dollars overseas.

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

Franklin: Domestic spending was high too. The War on Poverty, which poverty won eventually, and Medicare had increased domestic spending, and a mentality was growing that the government had to take care of everything and we could just print money to pay for it all. By 1970 the flight out of the dollar meant the gold coverage of the dollar fell from 55% to 22%. In other words, before 1970 they could cover 55% of the dollars in circulation with gold but by 1970 this 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 to make the announcement than they did to make the decision.

Catherine: I can believe that.

Franklin: Nixon, on 15 July 1971, completely surprising everybody (except those who had been watching the increase in gold's price and the decrease in the dollar) announced wage and price controls, tariffs on imports of 10% and then he announced that the United States was withdrawing from Bretton Woods. In other words, the United States 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 50 years.

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

Catherine: No.

Franklin: I agree, but there's been no pain for those who have benefited from this and for the American government and the Federal Reserve who were able to export their inflation for a little longer. For the rest of us there has been only pain; they were gutting the American economy by doing

By the time you get to the "Nixon Shock," inflation had increased because of the cost of the Vietnam War.

that. Today with trade deficits amounting to seven hundred billion dollars a year, we see a country whose manufacturing basis has been destroyed.

Catherine: Right

Franklin: Back to Bretton Woods. Floating exchange rates introduced an enormous amount of confusion into international trade and into currency trading. In the 34 years *before* the Nixon shock the U.S. money supply had grown a monumental two times; in the 34 years *after* the Nixon shock the dollar money supply increased thirteen times. It was the end of any kind of monetary discipline. Imagine that as late as 1965 the Federal Reserve was still required to hold a 25% gold reserve against its issued currency.

Catherine: Right. It was also the end of *cultural* discipline. When people stop having to act in ways that are fundamentally economically healthy in the long term, they start developing all sorts of bad habits and practices and you get entire cultures running aground. 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. Nobody's accountable.

Franklin: 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 saw it big time, but everybody shares that tendency. The Nixon Shock meant the end of discipline and raising that self-destruction from an individual to a national and finally international level.

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

Franklin: *(Laughter)* I really have to stop doing this.

Recorded January 13, 2011

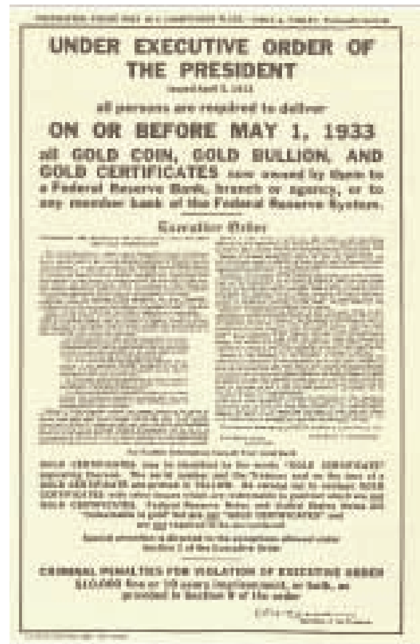
What the Nixon Shock meant was the end of discipline.

9. The Re-Legalization of Private Gold Ownership in 1975

Catherine: Franklin, in reading "Precious Metals: The Top Ten Dates in American History," I feel that I understand American history in a way that I never have before. Our next in the series is "The Re-Legalization of Private Gold Ownership in 1975." Are you ready?

Franklin: Yes. I call this segment, "Playing the Crowd while Wrecking Their Hopes," because that's exactly what has happened. A very vocal minority wanted to see hard money restored. Whenever they could—which was rarely—get their cause heard by any Congressional committee or addressed by any kind of legislation, they were promised much, but little was delivered. That's exactly what we've seen from 1974 until today.

Let's start with the legalization of gold ownership. A few individuals, chief among them Jim Blanchard of New Orleans, undertook to repeal the provisions of the 1935 Gold Reserve Act that allegedly made it illegal for U.S. citizens to own gold. They used a lot of really clever marketing splashes to make their case. For example, when Nixon was inaugurated, Blanchard rented an airplane to fly over the inauguration towing a banner that said, "Legalize Gold." They used a lot of great ideas like that.


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.

Catherine: That's fabulous! There was a group of activists once who basically told the Secretary of HUD, whose daughter was getting married at his house, that they had found out what his address was, and they said to him, "We'll ruin the wedding unless you give us what we want." They got what they wanted.

Franklin: The 1935 Gold Reserve Act couldn't forbid gold ownership, in fact, because that's totally unconstitutional. Everybody has a constitutional right to own gold. It's silly, in any event, but that's what it was. They put you in jail for disobeying illegal laws so everybody complied. But the only reason that Congress was willing to end the ban was because they firmly believed that gold's monetary role was disappearing and would never be resumed. Thus it was safe to allow ownership again. It really wouldn't make any great difference in the monetary world. They legalized it effective January 1, 1975, but it didn't really solve anything but the ownership question

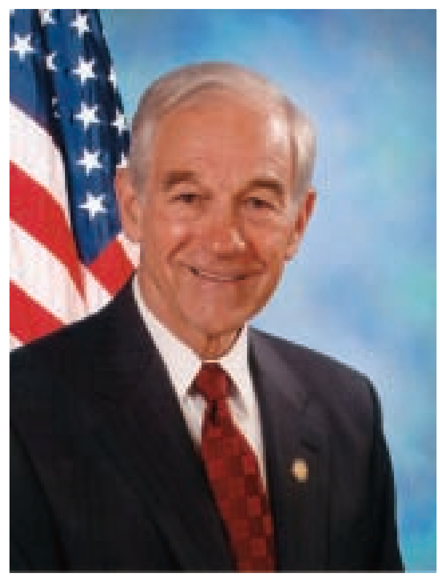

The Gold Reserve Act outlawed most private possession of gold, forcing individuals to sell it to the Treasury. The act also changed the nominal price of gold from $20.67 per troy ounce to $35.

because gold clauses—that is the right to contract in gold—were still supposedly illegal.

Then in 1978 Congress legalized gold-clause contracts. In truth, they couldn't have been made illegal anyway, because you have a common-law right to contract in gold that predates the Constitution, but let that go for a moment. After 1978 groups like the Gold Bondholders Protective Council brought lawsuits hoping they could cash in on pre-1934 bonds, both government and private, that were payable in gold. But all that never came to anything—merely spawned a lot of lawsuits.

Next Reagan was elected and the Congress appointed the U.S. Gold Commission. Remember the monetary commission Congress appointed after the 1907 panic? Once again, they appointed a decorative commission to "conduct a study to assess and make recommendations with regard to the policy of the U. S. government concerning the role of gold in domestic and international monetary systems." Once again, they stacked the deck.

Ron Paul was on the Gold Commission among others. I don't mean any disrespect, but they were just "window dressing"— to make it appear gold was getting a fair hearing. How do I know? Because the majority of these "genius" commissioners (Ron Paul and others excepted) concluded that, "Under present circumstances, restoring the gold standard does not appear to be a fruitful method for dealing with the continuing problem of inflation." That's a quote from their report. Well, right, but continuing to debase the U.S. dollar by allowing it to stay in the Federal Reserve's hands *would* address the problem of inflation?



Ron Paul, Member of the U.S. House of Representatives from Texas's 14th District, served on the U.S. Gold Commission.

Catherine: Well, this gets into "the Red Button" problem. We were in a time, Franklin, when you were printing *beaucoup* dollars and giving them to foreigners and they're not coming back. You're giving them paper and you're getting natural resources back, so you're free-riding the entire planet, a huge subsidy to the United States.

Franklin: Another reason these people didn't want gold back in the system.

Catherine: Right. They wanted the subsidy to keep on coming.

Franklin: Exactly. They wanted to continue stealing from the rest of the world. But the commission also recommended that gold coins should be minted, but without any dollar denomination or without any legal-standard status. Thus were hatched those ugly atrocities sold through the Post Office, American Gold Art Medallions—possibly the most hideous gold coins the world has ever seen. I can't even call them coins because they're called "medallions." They're not coins, but they're still around and you can buy them fairly cheaply. Once again, government action promised much but amounted to nothing.

In 1985, gold and silver coinage was resumed. The first bill passed in July, the Liberty Coin Act of 1985. That authorized minting legal-tender silver coins containing 31.103 grams of 99.9% fine silver. I hasten to point out what most people have missed, and that is that 31.103 grams of 99.9% fine silver doesn't make an ounce. It's half a grain shy of 480 grains. But that's the coin that is generally called the American Silver Eagle.

The problems with this mutant just go on and on. First of all, they minted it not at the constitutional and traditional weight of 371.25 grains of silver, but at 479.51 grains (31.0716 grams). That makes no sense at all. Then they called it a "dollar," which introduces yet another type of dollar into the monetary system, and still more confusion.

Next, they didn't do it on the constitutional and traditional system of free coinage. That is, you take your bullion to the mint, they coin it up, they give you back coin. There's no charge, except from a system called, "brassage," which means that they charge for the minting. Worse, the mint set up a distributor cartel for marketing to maintain high premiums. All this shows they were trying to make the coins so expensive that they would never circulate.

Later in 1985 Congress passed the Gold Bullion Coin Act, which authorized minting gold coins. The only reason it passed was that the Black Caucus got behind it as an anti-apartheid measure to hurt South Africa, because the Krugerrand was the best selling gold coin in the world. Thirty to fifty percent of all the gold coins being sold at that time were Krugerrands, so The Treasury exactly aped the Krugerrand. When I say "exactly aped" you must understand, first of all, the fineness of the coin. American coinage has almost always been 90% gold—that's 21.6 carat. These coins were minted exactly at 91.75 carat, the British Empire standard of 22 carats.

The Act provided for four coins: the $50 one-ounce coin, a $25 half-ounce coin, a $10 quarter-ounce coin, and a $5 tenth of an ounce. There's more confusion still, because none of these "dollars" belong to the traditional system ($1=0.048375 troy ounce), and they're not even internally coherent or rational, because the quarter-ounce coin ought to be denominated $12.50, right? If an ounce is $50, then a quarter-ounce is $12.50. But instead they denominated it $10. Clearly, the bill's writers intended to wreck it from the

One-ounce Mark Twain Gold Coin Arts Medallion was minted by the United States Mint.

The American Silver Eagle is the official silver bullion coin of the United States. Its content, weight, and purity are certified by the U.S. Mint.

The Gold Bullion Coin Act of 1985 has helped the American Gold Eagle to quickly become one of the world's leaders in gold bullion coin.

very beginning. And once again, it's not to be minted under the constitutional and traditional free coinage arrangement, but rather under brassage, and they market it through a cartel to keep the premiums high. It's sabotage.

Finally, you come to the tax consequences. Now, if nothing else was going to impede the circulation of gold and silver, the tax consequences would. The Federal Reserve's strategy from the beginning has been to marginalize, remove, tax, and finally, criminalize the use of gold and silver coins. All of these will suppress competition with their private *fiat* money. None of these bills dealt with or removed the tax consequences.

The American gold coins were copied from the Krugerrand.

Without any authority, and in fact, against Supreme Court authority, the IRS treats exchanges of gold and silver money for paper money as exchanges that generate a "profit," while you and I know they don't. On top of that, many states levy a sales tax on the exchange of gold and silver money for paper notes. This train wreck makes it more expensive to use silver and gold and therefore impedes their circulation. What makes this all the more ironic is that, under the federal statute, the Secretary of the Treasury is responsible to maintain the purchasing power equivalency of all these forms of U.S. money, but it's the taxpayer who pays for his failure.

The American Eagle coins were offered in four sizes: one-ounce ($50 denomination), one-half ounce ($25 denomination), one-quarter ounce ($10 denomination), and one-tenth ounce ($5 denomination).

In sum, all these hopeful advances from 1974—gold ownership legalization to restoring gold contracts, to the Gold Commission, to the new gold and silver coinage act—all that really accomplished nothing toward restoring hard money to circulation. They accomplished much, certainly, by removing *gigantic* legal restrictions, but not because of any official or political support. In fact, there was just the opposite—opposition at every step, because some political wrecker appears to rob every one of these measures of its substantive benefit.

So that's where we are today. And now, of course, under the auspices of the Tea Party, there are 11 or 12 states that are introducing bills to restore gold and silver to circulation.

Catherine: I saw this in Washington so many times. As a politician you can tell somebody, "No," or you can create an incredibly complex system that will either ruin or kill it anyway. And then you can say, "Well, we said 'yes,' but it really didn't go." It's a classic tactic and that's exactly what they did.

Franklin: I think they've shot themselves in the foot, though, because eventually what they have done—against all their intentions—these things will bear their fruit.

Recorded June 9, 2011

10. Weak Dollar, Strong Dollar: Heads We Win, Tails You Lose–

Managing the dollar and gold prices from 1985 through the gold price suppression beginning in the mid 1990s

Paul Volcker was appointed Chairman of the Federal Reserve in 1979 and reappointed in 1983.

Catherine: Let's turn now to the "weak-dollar, strong-dollar policy" and start with the weak-dollar policy starting in 1985.

Franklin: In 1979 Paul Volcker was brought in as Federal Reserve chairman with one brief: Squeeze the inflation out of the system. He did that by jacking interest rates to 24%. The unintended consequence was everybody switched from all other currencies into dollars to capture that high interest rate.

Look at the graph provided. Go back to 1971 when the dollar index began

Chart courtesy of Ron Griess
www.TheChartStore.com

at about 120 points. For thirty-four years, from then until 2005, the dollar index never drops lower than 80, and most of that time never rises above 120. In other words, the dollar index most of that time was contained—managed, I should say—in a range between 120 and 80. But by 1985 Volcker's high-interest rate, low-inflation policy had raised it to 165. U.S. manufacturers were screaming bloody murder, because with the dollar that high and the yen that low, they couldn't export anything.

Catherine: Exactly what is happening with the Swiss right now.

Franklin: Exactly. In 1985 at The Plaza Hotel in New York the finance ministers of France, West Germany, Japan, the United States, and Great Britain met and cut an outright deal: We're going to depreciate the dollar against all other currencies. They made no secret of it; they announced it very loudly. Naturally from 1985 to 1987, the dollar declined by 51% against the yen.

In 1985 finance officials from major nations met at The Plaza Hotel in New York, and signed an agreement (the Plaza Accord) affirming that the dollar was overvalued (and, therefore, the yen undervalued). This agreement, and shifting supply and demand pressures in the markets, led to a rapid rise in the value of the yen.

The dollar-index chart shows a great spike peak in 1985 at 165 and then rolls suddenly down off that mountain all the way to 1987. Then it recovers to 108, but generally trends lower in a weak-dollar policy during most of the rest of Reagan's regime and the reign of King George the First.

Then Comrade Clinton took power. The people of the Treasury under his administration, Secretary Robert Rubin (a long time "fixer" for the establishment) and his Deputy and later Secretary Larry Summers, in about 1995 undertook a new strong-dollar policy, but at the same time they wanted also to keep interest rates low. Maybe they thought that if they kept interest rates low forever, they could engineer prosperity forever. That's the same reasoning a redneck uses when he hands you his beer can and says, "Here, hold my beer and watch this." What follows is doomed to be very painful.

The preceding weak-dollar-policy had taken the dollar index down to 80, so they began to manipulate the price upwards. However, to manipulate the dollar index upwards while keeping interest rates low, they had to suppress the gold price. The tip-off that a currency is destined to drop is the behavior of its long-term interest rates, and gold is very sensitive to long-term interest rates. So if you want to suppress long-term interest rates, you must suppress gold too, because if interest rates drop while gold is rising, then the "realizers" out in the marketplace will spot that discrepancy, recognize what it means, and take action: dumping dollars and buying gold.

So the Treasury had to suppress gold in order to suppress interest rates. But wait! If you're going to suppress gold, you have to suppress silver too, because the market knows that silver moves in sympathy with gold. If gold flatlines or drops while silver is rising, the market will recognize that somebody is jimmying interest rates.

So, to suppress interest rates, you have to suppress gold, and to suppress gold, you have to suppress silver. If you want a strong dollar with low interest rates, you must suppress interest rates or you'll draw all the money in the world into the dollar and drive it sky-high. It appears that's what they did. Those responsible for U.S. government monetary policy, the Treasury and the Fed, manipulated the dollar from 80 in 1995 to 121 in 2001. And again, whenever that dollar index goes over 100, U.S. exporters are thrown into a terrible competitive disadvantage and lose business, but those buying overseas with stronger dollars reap a windfall.

Catherine: Let me describe it another way. Imagine my girlfriend and I want to go shopping in Paris. It would be very convenient for me if the dollar skyrocketed and the franc fell, because then I could buy that French dress for 25% less.

North American investors and hedge funds went on a global shopping spree, buying massive positions in natural resources and enterprise assets. With interest rates low and gold low, the dollar skyrockets, and they buy up the world on the cheap. Efforts were also made in a variety of ways to tank other economies. So the currency that you're buying with is priced high and the currency you're buying into suddenly gets hit, and you've created a gigantic fire sale. Literally you are watching insiders shift asset ownership globally and "rebalance" the global economy—tipping the scales in their own favor.

Did you ever see one of those old TV shows where they give somebody a shopping basket and five minutes to throw everything they can grab off the shelves into their cart? The hedge funds did that with the global economy. The strong-dollar policy was the monetary policy that made that work. It made that process of cornering global equity much cheaper.

Franklin: This was also the period of the great "privatization" or de-nationalization when countries sold off state-owned industries. After all the noise and propaganda, there was nothing free market about it. Rather, it was simply a mechanism to justify selling assets to insiders at pennies on the dollar, dollars worth a lot more thanks to the strong dollar policy.

Catherine: Exactly. It was engineered. The privatizations in Eastern Europe were engineered so that assets were sold for 10 cents on the dollar, while the

North American investors and hedge funds went on a global shopping spree buying massive positions in natural resources and enterprise assets.

dollar against the local currency had doubled compared to five years before. Imagine the ultimate discount they captured! Huge fortunes were created.

[Note from Catherine: To understand how this shift was part of the creation of the WTO and the rewriting of the global trade and capital rules, I strongly recommend you watch Sir James Goldsmith's warnings filmed in 1994: http://solari.com/blog/?p=3309]

Franklin: Right, and in the meantime, another problem arose: the U.S. balance of trade in goods and services. That has sunk to lows—negative balances—never before seen in history, and that could never have been imagined.

By 2001–2002, the trade deficit reached monthly deficit levels greater than yearly deficits had once been. Transferring U.S. industry overseas and the so-called opening of China caused most of that.

I can't prove it, but I'm convinced that the Bush II administration and the Fed made a decision to depreciate the dollar to try to alleviate the trade deficit. It's like watching the trees bend in the wind. You say to yourself, "Oh, I don't hear the wind, I can't see the wind, but I see evidence of the wind. The trees are bending, so the wind must be passing by."

The Bush adminstration decides to cure the trade deficit by depreciating the dollar.

The depreciation hasn't seriously slowed the deficit's growth, but they have managed to devalue the dollar from 121 on the dollar index down—not just to 80 and the bottom of the 34-year band—but beyond the bottom of the band to 70. Today it stands a little above 74. Since 2007, it has remained below the historic 34-year trading band. The chart appears to have made up its mind to take the dollar index down to about 40 before it stops.

Of course, they never make that trip in one step because if they announced it and made the trip in one step, the public would know what was happening—the rest of us could make some money on the movement too, and they don't want that to happen. The only reason they did it in 1985 was that they wanted the dollar to drop rapidly.

What you've seen is a completely artificial—manipulated—movement in the dollar's value that took it from 82 in 1978 to 164 in 1985, back down to 85 in 1987, then up to 121 in 2001, and now down to 74. All of those movements have brought enormous profits to someone, and enormous losses to the rest of us.

Try to imagine the malice and criminality behind this. Government officers, who are charged with administering justice, make it the resolved policy of their administration to steal from every single person who owns dollars. That's what the weak-dollar-policy means, and the strong-dollar-policy means the same thing in a different direction.

Catherine: Right. One reason I love this series so much, Franklin, is that when you dig into history, you see that the financial system is a set of rules, and someone keeps playing and fiddling with the rules for a variety of purposes. If we're citizens using those financial tools and currencies, and we don't perceive the game, then we will be harvested. You have to perceive the rules and the game, and understand that this is not a new game but has been going on for centuries. By reviewing history, you start to see the game emerge. It means an enormous difference in watching the markets, day to day to day, and avoiding being harvested.

Franklin: You know what we call "harvesting" on a farm? That's when we take lambs, or pigs, or cattle to the processor. That's slaughter day, and that's what they're doing to us.

Catherine: Sometime in the future we'll explain the manipulation of the oil prices, and the pumping and dumping of the housing market, and how it overlays this dollar manipulation. The strong-dollar-policy rested on—required—suppressing the gold price. I call it "turning off the smoke alarm." And then you can bubble the housing market and the stock market—for example, the telecom and the dotcom stocks. And that gives you a huge bubble out of which you can suck other people's capital.

Basically, you are tricking the whole economy into liquefying your equity (think "home equity loan") so that you can drain it out and use it for a global shopping spree. [Note from Catherine: Again, watch the Goldsmith video filmed in 1994: http://solari.com/blog/?p=3309]

Slaughter day: when we take lambs, pigs, or cattle to the processors.

Only when it bursts does everyone realize, "We have no equity left. We've been wiped out." They never even see it coming. Part of putting together the picture is working out how oil, housing, and the global shopping spree fit together. That helps you understand that in our economy the financial tools do not serve to optimize that economy. They serve only to "harvest" us and millions of others around the planet.

I remember talking to a man who used to work with one of the intelligence agencies during the Iran-Contra fraud in the 1980s. He said that his colleagues could never get over how wealthy this country was and that you could harvest and steal, and everybody would simply go back to work and make more money, so you could just keep on harvesting and harvesting.

He said we have no idea how wealthy the country and the people are because we can't fathom how much is being drained out. They can't fathom how wealthy they could be if the drain stopped.

Franklin: Here's an obvious example. Until roughly the 1970s, wives did not have to work. Today, almost every one of them works. Most families must have two incomes. That implies we are about half as wealthy as we were in 1955, and have to work twice as hard to live as well.

Catherine: Right. Well, thank you so much, Franklin. This has been terrific. I can't wait to read all top ten dates in the American history of precious metals together in one place.

Recorded June 9, 2011

Until roughly the 1970s, wives did not have to work outside the home.