All charts can be found at the end of the transcript in the *Charts Appendix*

Catherine Austin Fitts: It's wonderful to be home in Tennessee. I'm here at Top Of The World Farm with Franklin. We just had a typical great dinner at the Sanders' household. Franklin, is the technology working, and are you with us?

Franklin Sanders: It actually is, but it almost defeated me. And I couldn't just pick up the phone on the phone system and be on your line. I had to call in. So we both called in to Idaho or Monaco, or wherever it is. But I'm here, and ready to go. Listen, I didn't realize that you knew about John Taylor Gatto. You didn't tell me.

Catherine Austin Fitts: Oh, yes.

Franklin Sanders: I interviewed him about seven years ago I think. But his *Underground History of American Education* is one of the most informative books I've ever read. And formative, too. Since once you read it and understand how American public education – who formed American education, and who put the money behind making it what it is, you don't understand that unless you read Gatto's book. It's a fabulous piece of work: *The Underground History of American Education*.

Catherine Austin Fitts: One of the things I love about Gatto is he's a very hard working man, but he's also a very smart man. He's gone back and figured it all out. How it got to be this bad. And almost by understanding how it got to be this bad that you really comprehend how bad it is. And it's through that that you understand the opportunity. We're going to talk about it later, because our documentary this week is on a school that I think has shown how good it can be. It's remarkable.

Somebody gave me a recording of one of Gatto's speeches, and his speeches and interviews are fantastic. I remember listening to one as I drove back to Tennessee. I had a couple of his tapes and speeches, and within a couple of hours I pretty much had the 411 on the entire American educational system, because he just laid it out that clearly. Very clear.

Franklin Sanders: And you know, the final thing about him is that he's so cheerful with it all. There's nothing about him depressing. He's got some rough facts to face, but he faces them and he's still cheerful. He really is a great man. Very great man.

Catherine Austin Fitts: He taught all those kids how to beat the system.

Okay, so there's been a whole lot since we talked to you last, Franklin. So let's start with your bring down of the gold and silver markets since we talked on the last precious metals market report.

Franklin Sanders: Let's start with the context first. The context is that the Central Banks of the world, the ECB, the Bank of Japan, and the Fed have announced that they're going to inflate forever. There is no limit on the inflation. It's going to be QE to infinity. And that of course, is not good news for the economy, but it certainly is the best news that silver and gold could get. So against that backdrop, of course, they're trying to get their own economies going, and they very stupidly believe still, or claim to believe, that inflation will help that. And it's interesting to look at the performance of the stock market which does not show that their inflation is going to help. It shows that the idea that they're going to stimulate the market for week or two and then it flakes. It just dies off. It has no more effect. And it's really difficult to avoid that comparison with a heroin addict. You know, they have to take bigger and bigger doses to get the same effect.

Looking at the market, the dollar of course, was driven down, and I think certainly assuming that the Fed works with the other Central Banks which we know that they do, that was part of a plan to try and help bail the Europeans out of their tight spot. They drove the dollar down, and if you have that chart that I sent in front of you, you can see it —

Catherine Austin Fitts: Yes, it does. Check out the charts in the webinar. We're going to be walking through some charts. So I have the dollar chart up, Franklin.

All charts can be found at the end of the transcript in the *Charts Appendix*

Franklin Sanders: And what happened was the dollar built out into an even static triangle sort of, and then it fell down out of that triangle, but that proved to be a false breakdown. It didn't follow through and go down farther. It came back up. Now whether this is just a small reaction or not is not clear, but if it gets through, it's been trying to go up. And if it gets through, that would be the biggest surprise going. Because everybody knows, of course, since the QE3 announcement that the dollar is going to evaporate.

Well you know, when everybody knows something in markets, it means they've already placed their bets and probably that's not what's going to happen. So I think a surprise rally in the dollar to about eighty-one or so, maybe even a little higher than that, would just terrify stock investors and it would not comfort gold and silver investors either. So it would set a headwind up against them. I don't think that's going to last very long, that rally. But we might see that sort of ruling things for the next four or five weeks. If the dollar closes below seventy-nine points on the dollar index, then I'm wrong. That's not going to happen. That would indicate no, the dollar is going to go further down.

But if you look at the dollar versus the euro, the euro is not – it's nothing to brag about. It looks very sick, too. So the dollar is what's hanging over the market right now. And we might get a little surprise rally, and this is only a passing thing.

If you look at the gold-silver ratio chart, and I think I sent you that one, too.

Catherine Austin Fitts: Yes, I saw it.

Franklin Sanders: You notice the ratio went up to fifty-nine-to-one, at least on the chart I've got. And then it started coming down, and when it came down it came down very, very fast in August. And when it did, it left two gaps behind. That's typical technical behavior of a market that's in a big hurry. But there's a market proverb that gaps are always filled. So in other words, you can expect it to trade back up into those gaps at sometime in the future. Right now it's turned around and it's trying to react or correct back up to say fifty-four or so. And of course, the rising ratio means that gold and silver normally are falling. So that's another sign that gold and silver are not going to run away to the upside any time soon. Not to mention the political pressure of having the election hanging in front of us. That people actually believe it's going to make a difference whether Peter Pan or Tinkerbell is elected. I don't think it'll make any difference because they both believe or profess to believe the same stupid Kaizen theories that say that in inflation is good for the economy, whereas inflation and government spending killed the economy. So you'll get, as you say, different beneficiaries, and a different focus, but it will be the same nest, whichever one of them gets elected. So I think you've got that hanging over the gold and silver markets as well.

If you look at gold and silver both, if you look at those charts, you see very plainly in the gold chart that gold was on a fast track upward, and hit resistance a little below 1,800, and just stopped cold and backed off back to about 1,740. It made another try to break through that ceiling, got almost to $1,800 an ounce, and then backed off again. Well, what has formed is called a broadening top, and it could be a consolidation. It could just fool me and you know, trade sideways between 1,740 and 1,800 and then move right on up through 1,800. But it looks like to me it's a broadening top, and it's closed below the twenty-day moving average which is the first tripwire of lower prices. So I think you're going to get a correction maybe to 1,700 or maybe as low as 1,660, 1,650. And that's going to come fairly soon, ought to come fairly soon.

But you know, the end of the year, December is almost always an up month for gold and silver. So between now and December, let's say now and the end of November, there's going to be some sort of interim bottom in silver and gold, and then they'll head on up sometime before the first of December into the end of the year.

Silver chart looks just about like the gold chart. The parameters, the boundaries are different, of course. It's about 3,450. It would have to exceed 3,450 to judge that it was continuing its rally and that it would have to go below about 3,350 to say that it was going further down. I think that it will. I think we're going to get a correction here. Because that was a long, powerful rally that came up out of August, so it's normal to expect a correction here. But it's still a strong bull market.

Catherine Austin Fitts: Now you were expecting a correction before last month, and it didn't happen, so you were starting to think maybe it might not. But I think the charts really say it is.

Franklin Sanders: Yeah. The chart pattern is not one – it could be a continuation pattern, you know, where it just kind of clogs sideways. But I don't think so. I think given that previous ride, that we're going to get a greater correction before it takes off. But you know, we've started something really huge.

Catherine Austin Fitts: Right.

Franklin Sanders: The first and minimal target for this move is $2,000. And then past that, probably $2,300 by the middle of next year. And on the way to oh, maybe $4,500 on this leg. Sounds crazy I know, and I just have to preface by saying I know it sounds crazy, but that's the way the numbers look.

Catherine Austin Fitts: You know, I was very interested in having a variety of people in my network taking – you know, they've been in for a very long time, and so taking profits, starting at 1,800 and start to shift some of their gains out of precious metals. But when the QE3 was announced, it was much more aggressive than I expected. And both then and since it looks to me like the long-term on precious metals now looks much more significant over a two-to-three year period. So it gave me cause to reconsider. And I want to talk a little bit in a minute about what Bernanke really did and what's really going on.

There was one estimate, and I hate to quote Goldman Sachs, but one estimate – for those of who don't know, what Bernanke said was he was going to buy $40 billion a month of mortgage-backed securities from the financial institutions until he felt that unemployment was low again.

Now, the interesting thing is that his action has done a great deal to create unemployment. He's saying that he's going to keep inflating until employment is solved when in fact, the very thing he's doing is creating unemployment. So that's the basis of saying this can go to infinity.

But one of the estimates, because what I believe he's really doing is he's clearing the real estate market. He's saying okay, I now commit to all you large financial institutions that I will buy up the rest of the fraudulent paper. I used to have a deputy at

FHA when I worked there that said that FHA was where mortgages go to die. Everybody would refinance the crap into FHA, and then it would die there.

I remember we once had a nursing home that I found that we had underwritten 100% loan to value mortgage at $8 million, and by the time I found it, our property disposition operation in addition to the $8 million had spent another $12 million maintaining the property. It was the gift that keeps on giving.

What Bernanke has basically done is turned around to the financial institutions and said I commit to take all of this fraudulent paper off your balance sheet at par. If you've got it on your books for $100, I'm going to take it off at $100, even if it's worth 10¢.

And Goldman Sachs came out with a projection projecting it would take until 2015, and he would spend on QE3 – he would buy $2 trillion of paper. Pretty stunning.

Franklin Sanders: Well, it is. I was going to say, there's no limit. That's the thing. There's no limit. And this is what I've said before I think in our conversations here, that the tactic that normally comes at the end of these bubbles is to create a garbage can mechanism to take all the bad paper and put it over in there, and somehow or the other shift it off onto the taxpayer's back. Well Bernanke is saying the Fed is the garbage can. And I agree with you 100%. That's what he's doing. He's saying I'm going to clean up the banks' balance sheets by becoming the garbage can for the banks.

Catherine Austin Fitts: But I think he's also saying something else, and that is we cannot trust the civil service to shred these criminal liabilities. It's too dangerous. So we at the private banks have to do it. In other words, when you're taking in that $2 trillion of paper, you're taking in $2 trillion of criminal liabilities. Right?

Franklin Sanders: I understand what you're saying.

Catherine Austin Fitts: Yes. So I don't think they want to do an RTC, or they want FHA to buy them. You know, the civil service will leak, and the civil service will want bonuses when they see who's making this much money on this kind of stuff. So I think part of what he's saying is not only is the Fed the garbage can, but it's a toxic waste dump, because you know, it's financial nuclear waste. You can't trust government to do it. Which is pretty extraordinary.

And one of the questions I think in terms of the money supply, Franklin, is if you're pulling in $40 billion a month and you're pulling in the pyramid of derivatives and leverage on top of that, in fact, you know, that can be deflationary to the money supply. Because you're pulling – you've got this pyramid of paper that is really not circulating on

Main Street. It's sort of on the side. They've kept it in its own separate economy. And now they're pulling in a tremendous amount.

On one hand it's inflating of the money supply, but on the other hand, if you're pulling in all that leverage, and everybody's able to close out those derivative books, it can be in its own sense deflating. They gave out trillions of dollars, but the banks didn't lend it. They just lent it back to the government who wrote more subsidy checks to everybody in America.

Franklin Sanders: Right. I looked at it a different way. I looked at it that Bernanke is cleaning up the banks' balance sheets so they can – he's giving them 100¢ for an asset that's worth 20¢. And that's going to hugely boost the amount of cash and the amount of reserves that they have.

Catherine Austin Fitts: Yes.

Franklin Sanders: And they're going to just recycle that into government paper, and they're going to have a nice, neat profit for doing nothing.

Catherine Austin Fitts: Right.

Franklin Sanders: Basically they're going to get rid of their bad and get good paper in exchange.

Catherine Austin Fitts: Right. And they're going to lend more money to the government who's got nobody to buy their debt.

Franklin Sanders: Well, that's scary, too. I mean you'd hope that they would lend more to private individuals as well, or to businesses. But in any event, this is no way to run an economy. You know, the adults have left the building, and left the juveniles in charge.

Catherine Austin Fitts: Right. I think it's a way to control the economy. I don't think it's the way to run the economy.

Franklin Sanders: Right.

Catherine Austin Fitts: But you know, basically they're running – they're ping-ponging back and forth the cash between the banks and the government debt. And then they're running the entire economy through the Federal budget. And that's why I think the question of the fiscal cliff and what's going to happen is so important.

If we come into the fiscal cliff with the Fed having basically written a hedge to the entire financial community - they're going to pull in all the bad real estate paper and clear that market, then you come into the fiscal cliff with that in mind. Because I don't think you could engineer the fiscal cliff with that hanging over the markets. It's going to be very interesting.

I wanted to mention one other thing. I talked a lot last week about the fact that we've seen the stock market trade up and down with QE, so QE1 happens, the market trades up. QE2 happens, the market trades up.And then it starts to go down against the next QE. And one of the questions we have is, is the money going into the stock market or is it instead being used to pump corporate earnings? Because if you look at corporate earnings, they're doing the same pattern. They're going up. And one of the challenges in the equity markets because the equity markets in my opinion are over-valued right now, you've had corporate earnings going up tremendously, and corporate earnings are in for a correction. And in the next two weeks we're coming into the season of corporate earnings announcements. And the expectation is that they'll be down. So it's hard to imagine how this QE is going to give more bounce to corporate earnings, particularly because so much of it comes through the Federal budget.

Franklin Sanders: So much of corporate earnings?

Catherine Austin Fitts: Yes. So it's funny. You know, many people look at a stock market portfolio and they see private companies. I see government contractors, and companies which are highly dependent on government purchases, or governments rigging markets for them in a whole variety of different ways. And a lot of companies that people think are private companies are really not. They're government contractors.

Franklin Sanders: Right.

Catherine Austin Fitts: Before we go to the fiscal cliff, is there anything else you wanted to touch on on the market? I've got the silver chart up.

Franklin Sanders: I'm still thinking about a brush I had with a customer today and it made me think about timing. We've talked about this a lot. That the best thing to do is to go in and just buy. If the market is trending up, the best thing for you to do is buy, because even your timing mistakes will be bailed out. And I had this customer call and ask me about swapping, or about selling some silver and gold that he had bought in 2008.

And I looked at it, and the gold was up 208% and the silver was up 223%. And he had bought it in August 2008. And after that if you remember, gold and silver fell off the cliff. He had bought at 805, gold fell to 705. He had bought at 1,416 silver, and it fell to 880. So it looked like there within about two months that the end of the world had come for him and he'd made a horrible mistake. But he sat tight, and now it's worth nearly 2¼ times what he paid for it.

So it's just the magic of an up primary trend that keeps going up, and you just have to ride that trend. That's the main thing. You have to keep from being anxious and worried about whether or not this thing is really going to go up. You know, if you identify the primary trend and you ride that, then you're going to be alright.

Catherine Austin Fitts: Well, I feel if you don't have a core position, it's important to get in and get a core position. But when the price is this far above the moving averages, I don't think it hurts to wait until you get closer to the moving averages.

Franklin Sanders: I wouldn't disagree with that.

Catherine Austin Fitts: Yes. Not on the core position. You don't have to buy a little. Okay, so let's turn to the fiscal cliff. And actually before we go to the fiscal cliff, I just want to ask you, because more rumors out of *Russia Today* about the possibility of a strike on Iran, which I think is remote before the election, but you know, who knows.

The question is, we've seen a pattern in recent years of whenever war kicks up, the tangible prices come down. So I think the question is, if we do get more war in the Middle East, what's it going to do to gold and silver?

Franklin Sanders: I don't think there's an easy answer to that, because there are two different things that are tugging at each other. One is that gold and silver are seen as crisis hedges, and so they have a tendency to jump when there's some kind of crisis like that. That of course, is a passing phenomenon. And if you'll remember when Bush arranged the war against Iraq, the gold rose into that crisis, and then once they invaded Iraq, it dropped. So I don't think you can say altogether that war is good, at least not in the first few months for gold. I mean, that it necessarily pushes up gold.

Catherine Austin Fitts: Right. My expectation is if we do get an attack on Iran, I think so long as it's successful, it'll be strong for the dollar. And if that happens, I think it'll hit most tangible prices really hard. So that's one thing. If you are in a position where you're going to need to be selling, that's one thing to keep in mind. But I don't think it's likely before the election. Although, who knows. This environment is sufficiently nuts that I hate to predict anything in the short run.

Franklin Sanders: I couldn't imagine Obama agreeing to that now because of the turmoil that it would create, but also just – maybe just I'm too incredulous, but I can't imagine them invading, or you know, bombing Iran. I mean, it would be an act of criminal stupidity.

Catherine Austin Fitts: Well, it's very funny. Apparently the *New York Post* quoted Henry Kissinger in September as saying, in ten years the state of Israel would not exist. And I said to myself, and apparently he hadn't retracted it, and I said oh dear, nerves are really fraying.

Franklin Sanders: Yes.

Catherine Austin Fitts: We have a question from San Diego. Do you see anything on the horizon that could cause the price of gold to drop substantially?

Franklin Sanders: No, I don't. Not war, not change of administration, none of that stuff.

Catherine Austin Fitts: It all depends on what you mean by substantially. I mean, I think you think it could correct down as far as 1,600? And if we got a war..

Franklin Sanders: Well, 1,650.

Catherine Austin Fitts: 1,650?

Franklin Sanders: I don't think even that would take it down below 1,600. I just don't. Because the trend, we're just coming out of, you know – put everything else in the world out of your mind and just look at the chart. And if you do that and you do that with the assumption well, everything that everybody who's in the market knows is in that chart, then there's nothing I can see in that chart that does not say we're going way higher, and we're going to do it soon. We've already started.

And when I say way higher, I mean way, way higher. Remember that the first peak that we hit at around $1,000 in 2008, that was just the first leg up. And we're not anything like through the second leg up. We had this big correction. And now it's getting ready to move on farther up. So I guess that's the way I look at it. I mean, I look at it as everything I can see is in that chart. What I don't see in that chart is a fundamental change that would change the inflationary policy and the inflationary financing, and the corrupt financing that we now have.

The silver and gold charts say to me there's no cure in sight. There's not even a hint of cure in sight.

Catherine Austin Fitts: Right. Well actually I would say that Mr. Global would say that a steadily rising gold and silver price will cure the situation quite nicely in their favor.

Franklin Sanders: How do you mean that?

Catherine Austin Fitts: It's not a radical statement, but it's a slow burn to basement. I think once you have the currency to steal everything, you want to go back to sound money, because sound money is going to help you keep what you've stolen.

Franklin Sanders: Sure.

Catherine Austin Fitts: So you know, Bill Murphy and I used to always squabble about that. I kept saying you know, what do you mean you're going to defeat J.P. Morgan Chase? You know, when gold flies up, you know, the people who control it are going to get exactly what they want.

Another question. Will QE3 affect liquidity in any great way here in the U.S., and will the effort to inflate Europe, Japan and China increase liquidity here? Whose liquidity affects metal prices the most?

Franklin Sanders: I assume that means – liquidity in which country? And of course, you know, the dollar is very much the world currency. So I would have to say that dollar liquidity affects it more than anything else. But I think that question is kind of upside down, because I think of gold as a competing currency to all those other currencies. And so liquidity, which means funds that people have, is going to flow to its safest and most lucrative location. And if the market thinks that's gold, they'll take money out of whatever currency they're in, they'll swap that currency for gold.

Catherine Austin Fitts: Right. The biggest challenge that the Fed has, and the Central Banks have, is you have a very, very huge stock market. And you have a bond market that's twice as big as that. And you have a tiny precious metals market. And the question is, how do you keep all the money in the bond market when you're giving people no yields? And if it's that bond market that's financing the government, and the government is basically controlling the economy by running everything through Federal balance sheets. So how do you keep that huge pyramid of money in the bond market piled with derivatives on top? How do you keep it there, and how do you keep it from moving too fast into something else?

One of the advantages of clearing the real estate is it gives you a way to bring some of that money in. If it all just falls into the precious metals market, you would have – you could literally have the whole thing unravel. So you can't afford for precious metals to go up too fast.

And that's why I always say, if it goes up too fast at once you know, you've run the risk of war, because what it means is they're losing control of the slow burn, and that is not going to be to their advantage.

Franklin Sanders: So you mean that would drive them to the wall so that they would have to have a war. They'd have to have a war.

Catherine Austin Fitts: Yeah, they'd have to do something extreme. The one thing I do want to bring across, and I'm being very repetitive about this. But liquidity, when the Fed buys in this money, so when the Fed buys $40 billion a month of mortgage-backed securities in from the big financial institutions, that money is not moving out as liquidity into the general economy.

So from everything I see, Franklin, when you drive through Tennessee and you drive through the south and Tennessee, the money supply in small towns is shrinking, and it continues to shrink. The liquidity is not – you know, you've got a town, everybody's keeping their deposits in dollar deposits, the purchasing power is shrinking, and their liquidity is shrinking.

If these towns could do their own currencies, you would see a flurry of activity because there's just not enough currency for all the activity that wants to happen. So you know, on mainstream in terms of money supply, you're watching a deflation happen even though the money supply is expanding dramatically totally. But the Fed has has been able to literally keep a pumping system going whereby that money never goes into general circulation.

Franklin Sanders: It never reaches Main Street.

Catherine Austin Fitts: Except in the food prices. I mean, in the prices of essentials, yes, it reaches Main Street in terms of rising expenses. But in terms of rising liquidity, not at all. The liquidity has been very, very much constrained. It's important to understand that. Because if that continues next year we're talking, when I said that we're going to get a one-two punch. You know, Congress is going to punch the middle class with the fiscal changes on both tax increases and spending, and QE3 is going to hit the from the other side by dramatically raising gas and food, and other essential prices. And it's really going to be a one-two punch that comes all at the same time.

Let's turn to the fiscal cliff then. I'm going to talk a lot about it next week, but let's go to the slow burn, because one of the things that happened when I published the article about QE3, you and I started dialoging about what are the mechanisms that have allowed the system to keep this slow burn going. Why are we not yet in hyperinflation? How has the Fed been able to keep interest rates at almost nothing?

And one of the things I said was well, you can offset monetary inflation with labor deflation. And you ended up writing a piece for The Moneychanger which was quite wonderful about our discussion. So maybe if you could say a little bit about it?

Franklin Sanders: Well, I think your explanation is that lowering labor costs, lowering demand for labor, and lowering labor costs, that they can stave off some of the price inflationary and wage inflationary effects of the inflation. And maybe they can. I don't know. I mean, you know, certainly there has not been – we have not suffered a terrible price inflation even though the monetary inflation has been huge.

And I'm always at pains to distinguish between monetary inflation and what people call inflation, which is just rising prices. That's not at all the same thing.

Catherine Austin Fitts: I think that globalization has given the wherewithal to do a lot of this offset between monetary inflation and labor deflation. So by globalizing and outsourcing tremendous amounts of things, we've been able to access much less expensive labor globally, and also bring down the price of labor domestically, because they're having to compete much more.

The question is, can you keep that going? And I think a lot of the just ferocious attacks you've seen on the unions around the country is in part to keep that going. So there really is an effort to fundamentally shift the value of labor vis`-a-vis´, you know, so human capital versus financial capital, that's ongoing.

To me, if you look – that's been a tremendous benefit from the beginning of the '90s to now in terms of helping prevent that kind of price inflation that you just mentioned. I think the big one going forward over the next two to three years to me is more than labor deflation. It's going to be new technology.

If you look at some of the areas where they're pushing to bring on new technology, including digital currencies, that's one of the reasons why. Is they think it can be unbelievably useful in helping keep the slow burn going.

Now if it goes the way it looks, it's going to have a tremendous impact on employment, and there's no discussion that I know of, of well what's going to replace the employment model? If people are no longer needed to be workers, exactly how are they going to organize their financial wellbeing? And everything we've seen people try to do to respond to that and say okay, well I'm going to grow my own food, I'm going to manufacture my own stuff, I'm going to – if anything, we're watching government regulation try and prevent all of that. So there's a definite squeeze to stop people from trying to disintermediate out of the system and out of the income model. So to me, that's going to be a very big question mark that comes right down to this question of labor devaluation and keeping the slow burn going.

So they're saying you can't work, but you can't build equity either. Well, what's the plan?

Franklin Sanders: Well, what are you going to do with all these people? When you've got, you know, 40% unemployed, and people become, in the Nazi phrase, *Nutzlose Fresser* of Russia. That is useless eaters. What are you going to do with them? I mean, that's a nightmare. The whole thing is just a nightmare idea.

You can't just say oh well, you know, 60% of you people are going to have to go die. I mean, I guess you can, but that's so inhumane, it's almost impossible to conceive. But there's no question that globalization must necessarily lower U.S. wage rates. Must necessarily. I mean, it has. A $30 an hour union worker in Detroit cannot compete with a $2 a day Chinese laborer. I mean, don't tell me about skilled labor. I mean, what he's doing is operating a machine. I mean, it's not that kind of skill.

Catherine Austin Fitts: Right.

Franklin Sanders: So there's no question that they're doing that, but then you come to deeper questions. And this is what I came to with you in our conversations. Who is doing this? Why are they doing it? I mean, if you say they're supporting progress, well it's mindless. It's not progress to make life impossible for large numbers of people. That's not progress.

Catherine Austin Fitts: Well, it's centralizing control in a way that decreases wealth.

Franklin Sanders: Well, it decreases the distribution of wealth.

Catherine Austin Fitts: It decreases total wealth. So you're shrinking the pie, but you're controlling it. So what we're looking at is very significant wealth destruction. And you know, if you look at wealth on a real basis, you know, it's been shrinking. And part of it is when people are extremely unhappy about their governing system and they don't trust it, then activity shrinks. Entrepreneurial activity shrinks.

Let's turn to the fiscal cliff, because unfortunately, it's only going to get better next year. I wanted to go through a couple of key points that I've made before. I'm going to make them again next week. The Accountants association, Franklin, did a video promoting solutions to the "fiscal cliff." And one of the things they did is something I've seen happen for several years - affirming that David Walker was the leader of reforms in this area He's the former Arthur Anderson partner who was controller general for many years in the General Accounting Office, (now the General Accountability Office) which is Congress's auditor. And when he left the GAO, he became head of, Pete Peterson set up a little foundation and they made a video and have been touring the country promoting solutions to the "fiscal cliff."

So basically what I said was that David Walker was being affirmed as the official "liar-in-chief." And I want to talk about the big lies on the budget, because it's very important to understand that this whole thing is contrived.

Now that is not to say that there aren't serious economic problems that don't need to be addressed. There are. That's not to say that we're behaving in an economically healthy way. We're not. So we need enormous change. But it's important when you make a change – it's important if you're going to operate on a patient that you have a proper diagnosis. So I want to make sure everybody understands the extent to which the entire fiscal cliff description is totally contrived. And let me just walk through a couple of things. I'm going to use you as the guinea pig, Franklin, to see if I can communicate that.

Franklin Sanders: Alright.

Catherine Austin Fitts: First of all, we have not had audited financial statements as required by law for over a decade. The law was instituted in 1995. The Federal government was suppose to produce audited financial statements. It never has, and it has regularly announced that it can't. And in the years, you know, in the over seventeen years now that it can't, we've had over $4 trillion that I know of just from my own documentation using Federal documents. It's all up on the web. We've had over $4 trillion simply go missing, unaccounted for.

Now if you have an institution that has refused to obey the laws of producing audited financial statements and complying with numerous laws related to its finances, and it has refused to comply with the law that says Congress – money cannot be spent unless appropriated by Congress, if $4 trillion is missing, we're spending way more than Congress is appropriating.

So this is an organization which is in complete defiance of the law in the extreme, which means their financial statements and budgets are totally meaningless. If you were a bank and you had a private corporation who was your customer who refused to produce audited financial statements as required by law, and refused to comply with the laws related to financial management of their money, would you believe a word that they said?

Franklin Sanders: No, but I'm not much of a guinea pig here, because I didn't start out believing them.

Catherine Austin Fitts: Okay. So we're looking at a set of financial statements that have been produced by somebody who has refused to comply with the law for decades. So you know, I won't say the word on this *Solari Report*, but I used to have a partner who would pick up a financial statement from somebody who we knew was untrustworthy, a group of – you know, we knew the board and the management was untrustworthy, and used to call it mouse- S-H-I-T on paper. So we'd look at the financials and you'd say this is "mouses**t" on paper". Well, the federal budget and financials are "mouses**t" on paper" t.

So that's number one. You know, the numbers that were being given and the documents being given have no integrity. So that's number one.

The second thing is trillions of dollars are missing. We know that revenues came in, and liabilities, securities went out, and the books don't balance, and trillions are missing. And no effort has been made to figure out where that money went or to get it back. And the congressional auditor who is in charge of making sure that our expenses are in compliance with the Constitution of the United States during that period was none other than David Walker, who did absolutely nothing and said absolutely nothing.

Kelly O'Meara who wrote a fantastic series for the Washington, for *Insight Magazine*, *The Washington Times* magazine that went to all of Congress, asked David. She tried to pin Walker down to why he was doing nothing regarding trillions of dollars walking out the door, and he was clearly too afraid. I mean, he was playing the system.

So Kelly O'Meara said to him, "will you give us, will you publish a contract budget of all the defense contractors who run the accounting and information systems for the agencies that are missing $4 trillion?" And he wouldn't do that. He promised he would do it the next year, and he never did.

This is a man who sat there and did absolutely nothing and let trillions of dollars float out the back door. Said nothing and did nothing.

You have unbelievable internal control violations, Franklin, because you have agencies where the biggest receiver of checks from the agency is also the company that has a contract to do their information and payment systems. They're paying the money to themselves. That is a violation of every internal control law in the book, and you have agencies who are in huge areas with all the money. There's no government officials who understand or are in control of what's going on. It's being run by private corporations.

So you know, David Walker is the last person in the world you want proposing solutions. David Walker facilitated the problem in the first place.

Finally, another point is the black budget. We know that for many decades we've had something called the black budget, and in the spirit of money going missing, where the mortgage fraud, the Federal government engineered the housing bubble with Federal credit, and that's part of the trillions that have probably gone missing. So we know the Federal government has been engaging in things like the black budget for many, many years.

I always liken it to a milk bucket that has a hole in the bottom. When the farmer comes to you says oh, we need more milk, there's no milk in the milk bucket, well, why is there a hole in the bottom, and where's the milk going to every time it flows out the hole in the bottom? So it requires a serious look of the black budget.

The last thing I wanted to say was if you look at the Federal budget on a place based basis, it has a negative return on investment. And it has a negative return on investment as a matter of policy. I've written and talked a whole lot about that, but we have engineered the budget to control the economy as opposed to optimize the economy.

If you were to take the Federal budget by county. I remember I once showed you, remember, the Federal agricultural subsidies coming into your county here in Tennessee.

Franklin Sanders: Yes.

Catherine Austin Fitts: And you almost fell off your chair. If you look at the Federal budget on a county level, and you get the consolidated annual financial reports and look at where the money's going, two things are happening. It's being invested in a way that reflects a whole different series of political constituencies, but it also reflects a different kind of economy than the economy, you know, the technology and where we are now calls for.

It's an old model. It's an industrial economy that is no more, and it's engineered for political purposes instead of for a healthy economy. And if you were free to engineer it, there's plenty of money.

Ihe last issueI have to mention is when you look at what's on budget and what's off budget, it's completely contrived. Let me give you an example. All the expense of going to war is on budget, but all the assets acquired in the wars are off budget. You are paying all sorts of corporate contractors to do all sorts of things. They create and invent tons of technology, but they own it privately. We finance the space race and the space program, and now that we're ready to start mining, well suddenly it's a private activity.

You know, the Federal credit is on budget, and when the banks get in trouble, the bailouts get done up to $27 trillion in the Central Bankand the government, but those gifts, loans and benefits are off budget. So what is on budget and what is off budget is very carefully contrived to create a fiscal cliff where if you moved all the benefits and the assets on budget, it would be a totally different picture.

Franklin Sanders: Right.

Catherine Austin Fitts: The question is, when you come up with solutions that say we're going to take all the assets and benefits and move them off balance sheets, $27 trillion of the banks go over here to the right, and then we're going to put all the expenses on budget and then we're going to say okay, this group of American people suddenly have to pay for everything, and the fact that we've drained this of all sort of trillions of dollars of missing money, well, we're not going to go get that money. We're not going to account for it. You're basically shifting the liabilities to a group of people whose assets you're stealing at the same time.

And so to me the whole presentation is totally contrived. Am I making any sense?

Franklin Sanders: I'm sorry. The presentation of the fiscal cliff is contrived.

Catherine Austin Fitts: Right. You have a very contrived presentation made to look like you have to cut Social Security and retirement benefits and Medicare and Medicaid dramatically.

Franklin Sanders: Well, it actually is very clever and it reminds me of what the red Chinese used to do, you know, when they had the labor camps and the days when they were really killing people wholesale. The relatives never knew what had happened to their arrested relatives until they got a bill for the bullet that killed them. So what you're telling me is that the government is one vast racket where not only they're shooting you, but they're sending you the bill and making you pay the bill for the bullet.

Catherine Austin Fitts: Right. And unfortunately, they're sending you the bill at the same time QE3 is going to raise the price of your oil and gas, and your food, and everything else.

Franklin Sanders: Right.

Catherine Austin Fitts: I will talk more about the fiscal cliff next week in the 3rd Quarter wrap-up. I think it's very, very important for everyone to know that the one-two punch is coming, and what I do have to say is that every indication, Franklin, is that gold and silver for some foreseeable future can continue to play the role that they've played to date, which is protecting our assets from that one-two punch.

Franklin Sanders: I don't see any indication, again from a technical standpoint, or from the standpoint of coming change that would indicate that's not so. I mean, as far as I can tell they're going to keep on working.

Catherine Austin Fitts: Yep. Well, bear with me for a second because before I'd like to turn to something a little bit more inspiring than the fiscal cliff, and that's our documentary for *Let's Go To The Movies*. But before I do, anything else you want to say on gold and silver or any wisdom you want to impart for the next thirty days before we're with you again?

Franklin Sanders: No, I think I've pretty well covered it. I think you have to keep reminding yourself and asking yourself if this is a primary trend, what do I need to do? And the answer is you need to hold tight.

Catherine Austin Fitts: Right. Well, I will say this. I was talking this afternoon with a group of people about the fiscal cliff and QE3, and what it would do to the average household budget, and I said, contemplating all of this I'm so glad that I'm going to spend a weekend with Franklin talking about how we transform and renew through this.

Franklin Sanders: I was getting a little downcast myself.

Catherine Austin Fitts: Do you want to say anything about this weekend, and what we're going to be up to?

Franklin Sanders: I'm beginning to look – I mean I have been looking forward to it, but I'm really beginning to get excited about it, because I've been reading the bios from the people who are coming. And it's just an incredible range of age and experience, and I want to hear what they have to say as much as I want to hear what I have to say.

Catherine Austin Fitts: It's a great group of people. Many different states, Canada and America, and many, many different places. And you're right. We range from I think twenty to eighty-four. It's a wide range.

Okay, well very quickly, we had a documentary called *The School: Humanity's New Future*, and I have to tell you, it's one of the most inspiring documentaries I've ever seen. It's on a school in Russia in which the children themselves design, build, and decorated their own campus. And it's about the most beautiful school you've ever seen.

They also design their own curriculum, and they run the school so they do the cooking, they do the cleaning, they do the administrative work. As they design their own curriculum, they are both the students and the teachers. So they can make up their mind, Franklin, for example, well, we want to learn physics this month, and we're just going to study physics until we feel we've mastered it, and when we are comfortable we've mastered it, then we'll pick something else.

So they really focus on different things. And you get people, you know, children at various ages who've mastered. You know, so thirteen-year-olds who've mastered quantum physics.

And it's funny. The producer of the *Solari Report*, Kristen Linton, said to me today, she's been a teacher and she said you know, these are not like any kids I've had. Did you get a chance to watch it yet, Franklin?

Franklin Sanders: I read the article. I didn't get a chance to watch the video.

Catherine Austin Fitts: Okay, well it's – there's sort of a crude version of it up on the web, and we put it in the blog post so you can watch it for free. You can also get a copy, it's not a long documentary, at deepsnowpress.com. But I will tell you, it's one of the most inspiring things you've ever seen. So if the fiscal cliff is depressing you, pick up *The School* and take a look, because it's a wonderful example of what civilization can be, and it reminds you of the tremendous inspiration you get when you realize the enormous creative power that exists in each and every human being, and the potential we have as a human race - what we can be. So I recommend it very much: *The School*.

Okay well, Franklin, thank you so much for joining us.

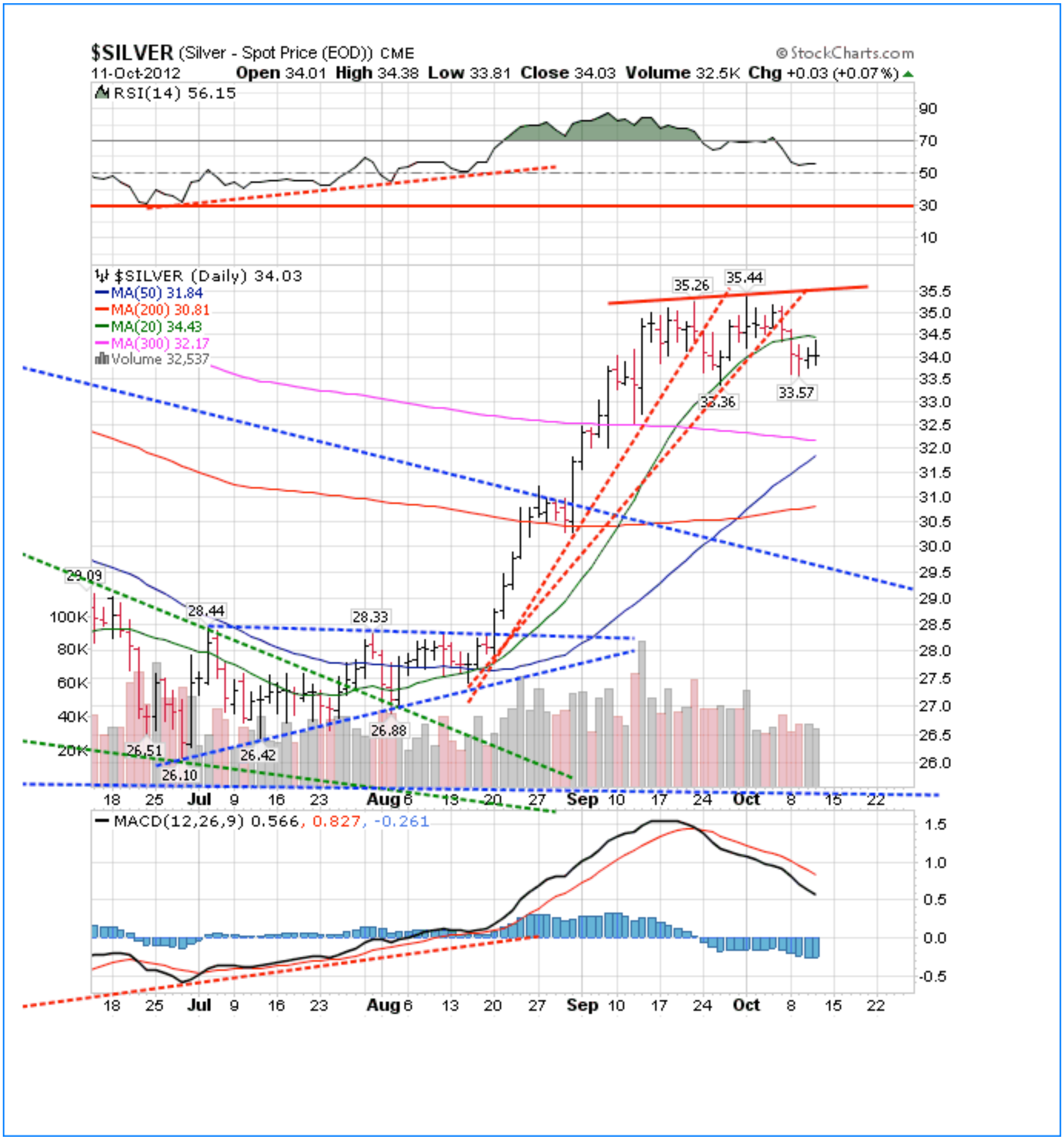
Franklin Sanders: My pleasure.

Catherine Austin Fitts: We will be back with you in November, and we will know who the, I call them Monsanto and Goldman Sachs right, and Monsanto. Goldman Sachs left. So we will know which version of Monsanto Goldman Sachs will be in the White House next year. So we will see what that has to do with the precious metals market.

Charts Appendix

Gold Chart

Silver Chart



Gold-Silver Chart

U.S. Dollar Chart


$INDU (Dow Jones Industrial Average) INDX
©StockCharts.com
11-Oct-2012 Op 13346.28 Hi 13428.49 Lo 13326.12 Cl 13326.39 Vol 517.5M Chg -18.58 (-0.14%)
RSI(14) 43.81
$INDU (Daily) 13326.39
MA(50) 13309.79
MA(200) 12923.41
MA(20) 13511.23
Volume 517,452,992
13661.87
13297.11
13338.66
12961.30
12898.94
12710.56
B
12450.17
12521.84
12035.09
MACD(12,26,9) 39.125, 73.336, -34.211
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov

INDU Chart


$XEU (Euro - Philadelphia) INDX
©StockCharts.com
11-Oct-2012
Open 129.25 High 129.52 Low 129.17 Close 129.29 Chg +0.63 (+0.49%)
RSI(14) 55.12
$XEU (Daily) 129.29
MA(50) 126.87
MA(200) 128.28
MA(20) 129.58
MA(65) 125.98
Volume undef
MACD(12,26,9) 0.569, 0.799, -0.230
134.86
133.22
133.68
132.13
129.77
130.11
131.72
128.29
126.93
126.24
122.88
120.42
Dec
2012
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct

XEU Chart