

THE REAL ECONOMY IN FITTS AND STARTS: Catherine Austin Fitts on Economic Warfare and Trillions of Missing Dollars

Interview: Catherine Austin Fitts and Jim Puplava (May 27, 2004)

Introduction and footnotes: Pete McCormack (Nov 1, 2007)

*“The adversary is closer to home. It is the Pentagon bureaucracy...According to some estimates we cannot track **2.3 trillion dollars** [of Pentagon transactions].”*

—Donald Rumsfeld, Sept 10, 2001

Before I add footnotes to Catherine Austin Fitts’ 2004 interview with Jim Puplava, I’d like to say that, being Canadian, one might ask why it is I write so often about the United States.

It’s a fair question. Partial answers are simple and inconclusive, yet the best I can offer.

TRAPPINGS

I believe, first of all, I am none of these definitions, ultimately; not Canadian or American or Indian or Chinese, not woman or man, not omnivore or herbivore, white or black, Right or Left, straight or gay, Christian or Jewish or Muslim or Hindu or Atheist or agnostic.

Well, of course I am *aspects* of these things, but I see these trappings as real yet profoundly temporary. To steal a phrase from writer Larwrence Wright, these trappings are “mental artifacts that separate us and yet can be powerfully creative or destructive.”¹

“Easy for you to say,” one might respond, “You’re white *and* male.”

I stand defenseless (and pasty), understanding my comment arouses justifiably passionate poo-pooing and even vitriol from those who have suffered sometimes inconceivable misfortune due to their particular trappings—*and so many have suffered brutally*.

But the persecution, it turns out, has always come from *others who believe in their “superior” trappings* during an historical moment when that particular set of trappings happen to hold greater power.

Thus, the comment also arouses poo-pooing from those who by imposing conscious or unconscious hatred *have prospered or persecuted from their temporary platform of*

¹ Quoted in an interview with Harry Kreisler (Al Qaeda and the Road to 9/11) at <http://globetrotter.berkeley.edu/people6/Wright/wright-con0.html>

trappings—say the Rwandan Hutu extremist, White imperialist or Islamic suicide bomber and so on, endlessly.

Trappings work both ways. Until we internalize this truism, how can we become less trapped? And no matter what we believe, we are all limited by a mutual human condition—by our grand neo-cortex and the profound stories it can tell about our trappings, as life ticks away.

So for today, being a special occasion, I've decided I'm a *Non-Tribal Transcendental Anarchist*.

Beyond even these trappings, all the world is my country, every person is a brother or sister—with the right to be here, and to be here with dignity. This view does not exclude the vital need for subtle and profound discernment, by the way.

Eugene Debs², after being sentenced to ten years in prison and disenfranchisement for life for his opposition to World War I, stated at his hearing:

“Your Honor, years ago I recognized my kinship with all living beings, and I made up my mind that I was not one bit better than the meanest on earth. As long as there is a lower class, I am in it. As long as there is a criminal element, I'm of it. As long as there is a soul in prison, I am not free. As long as there is a sale at Macy's, I'll be there.”

I'm not sure if that's literally true—and I made up the last line about Macy's. But if you believe you are free and have power, go and exercise that power by trying to really change the lot of people suffering in Darfur, Northern Uganda,³ the Congo, New Orleans or on Vancouver's Downtown Eastside.^{4 5}

Be one of them for an hour, and quickly see how little power we all have.

Or try to uncover fiscal fraud at the Pentagon or the Department of Housing and Urban Development.

But even with these limitations, one must still act according to one's purpose, which brings to mind one of my favourite passages in the *Bhagavad Gita* (chapter 2, verse 47):

² In 1920, Debs ran for president from prison, on the Socialist Party of America ticket, and received 913,644 votes (although god knows what happened with the vote count in Florida).

³ A film I co-directed about Northern Uganda called *Uganda Rising*, with many links at www.petemccormack.com/films.htm

⁴ See CA Fitts' *Narcodollars for Dummies*: www.scoop.co.nz/stories/HL0202/S00054.htm

⁵ About the War On Drugs and Vancouver's Downtown Eastside, I wrote a long essay called *Noam Chomsky On Drugs: A Little Insite into the Hypocrisy of it all* at www.petemccormack.com/ncondrugs.pdf

“As a human being, your strength lies in **purposeful action** but **the results of your actions are beyond your control**. Do not consider yourself to be the cause of the results of your activities but at the same time **do not retreat into a state of inaction.**”

I AM AMERICAN

Now that’s out of the way, I must say that, one, I also write about the United States because I can.

Two, due to America’s size, power and proximity, Canadians are deeply affected both positively and negatively by what happens south of the border: economically, politically, and culturally.

Speaking of culture, so many films (even films that blow my mind), in my opinion indoctrinate citizens against the damage caused by economic fraud and the muscle behind it.

Between, for example, Oscar-winners *The Departed* and *Mystic River*, one could easily wonder if there are any worldcentric, non-swearing, non-drinking, intellectually-inclined middle class people in Boston.

With so many esteemed institutes of higher learning, no less—god, I’m starting to sound like Tipper Gore. What an inconvenient truth.

To anyone living on, say, Mars, looking down and taking notes, this deluge of filmed material would appear not as entertainment—though it is—but as propaganda, befitting the current economic climate. Perhaps they are related, and the cinematic sensibility is partially an offshoot of that fraud.

But back to me in America.

I have great friends in America—sisters and brothers. I speak the same dominant language (though my Spanish needs work). Countless people who have deeply inspired me and continue to inspire me are American. I’ve fallen in love in America (more than once). I’ve made a living at times via America. I relate to what America claims to stand for. I exalt the commitment to free speech in America.

However, I don’t think it would be incorrect to suggest that the effects of America’s actions are profoundly magnified by its immense power and influence.

Thus, unilateral aggression and invasion—broadcast to the world as freedom and peace-loving—is literally an unstoppable cancer on world morality. Similarly, the success of, say, the Civil Rights movement shook the developing world—and in terms of consciousness, *we are all the developing world*.

In other words, does the massive corruption in America—due to non-transparency but labeled freedom or democracy—make increased corruption even more likely in the rest of world?

I don't have to repeat how awful dictatorships are (though I do). I need to repeat how much greater democracies can be, and need to be.

Yes, dozens of countries in, say, the Middle East or Africa are hellishly fundamentalist (religiously, economically, violently)—with all the systemic Big Brother fascism, incarceration and misogyny that follows.

So why don't we make certain to pursue—with inspired vigilance and creativity—ideological goals *less* like them, than more like them?

Historian Paul Kennedy wrote in 1988:

“[T]he American position is a very special one. For all its economic and perhaps military decline, it remains, in Pierre Hassner's words, ‘the decisive actor in every type of balance and issue’. Because it has so much power for good or evil, because it is the linchpin of the western alliance system and the centre of the existing global economy, what it does, or does not do, is so much more important than what any of the other powers decides to do.”

2.3 TRILLION DOLLARS

“This American system of ours, call it Americanism, call it Capitalism, call it what you will, gives each and everyone of us a great opportunity if we only seize it with both hands and make the most of it.”
—Al Capone

Finally, what else can a writer do but write, when the most powerful and famous democratic country on earth—the bastion of the free world, the home of the brave, home of the Yankees, the Redskins, the Statue of Liberty, the Super-sized *everything*, and a place for the tired masses to rest their heads—cannot account for a missing *1.1⁶ to 2.3 trillion dollars?*

That is correct, to the best of my understanding: Two-point-three trillion missing dollars from the Pentagon (tax-funded) Treasury *in one fiscal year* and \$59 billion dollars (ah, a mere pittance) from the Department of Housing and Urban Legend—I mean

⁶ On the Website *Where is the Money* (www.wheretheismoney.org/FAQ-detail.htm#FAQ10), the question is asked: could the discrepancy be simple accounting errors? The short answer:

“For accounting errors to be legitimate, they must be subject to a *materiality* standard—a standard rule of thumb dictating whether errors are immaterial (acceptable) or material (unacceptable). A standard of 1-3% of an operation's budget could be argued as immaterial. Hard to say that about adjustments that are greater than 100% of the annual budget...”

Development (HUD).

These missing funds are called “undocumentable adjustments.”⁷ ⁸I know, the number is

⁷ On the website *Where is the Money?* (www.whereisthemoney.org/FAQ-detail.htm#FAQ01), the question is asked: what are adjustments and unsupported accounting entries? The short response:

“*Unsupported accounting entries* are the adjustments made in accounting records to force the books to balance when they don't add up, for example when:

- a) an operation is negligent in tracking down and fixing imbalances in their accounts;
- b) money and assets are missing, stolen or being spent in violation of the law;
- c) government securities and guarantees are being issued fraudulently or secretly.

In other words, an "unsupported adjustment" is a plug figure for cash and assets that are *unaccounted for and/or disbursed unlawfully*, with no supporting records or audit trail.”

⁸ See Dov S. Zakheim at http://en.wikipedia.org/wiki/Dov_Zakheim. During his George W. Bush appointed time as Comptroller (2001-2004), Zakheim was asked to track down the unaccounted trillions (and claimed to have cut the missing funds by 2/3rds). See the pamphlet-like results, which say very little that I can understand, by following the links at the bottom of the wikipedia page (how can my footnotes be infinitely more detailed?). Zakheim left the Comptroller job to become Vice President of *Booz Allen Hamilton* management consultants. According to wikipedia, *Booz Allen Hamilton* “has a longstanding relationship with federal intelligence agencies” and primarily competes with “systems integrators and defense contractors and serves global governments, agencies, NGOs, as well as nearly every part of the U.S. Government and military infrastructure.” To my simple mind, this job movement is unsurprising, yet curious and less-than-comforting. Why not Ralph Nader to look into the missing funds?

See this Oct 19, 2007 news report from the FederalTimes.com called “New title isn’t answer to DoD business reform, lawmakers told,” at <http://federaltimes.com/index.php?S=3122789>. In it, although I don’t really understand the process, does Zakheim not seem to continue the trend for profound non-transparency and sleight-of-hand money juggling in every way, when he says:

“...*the chief management officer must be given more power by Congress to actually manage the Pentagon, starting with an increase in the amount of money he can reprogram, or switch from program to program [I thought this transfer was where much of the trillions of dollars becomes unaccountable]...*”

“Reprogramming ceilings should be lifted to 5 percent,” Zakheim said [whatever that means]. Reprogramming authority is about 2 percent now, and *that makes it difficult to transfer money from programs that have more than they can spend to programs that need more than they have*, he said.

“We had to move mountains” to get permission to shift money from other programs to buy armored Humvees and body armor for troops in Iraq, he said. “We’re still functioning as if we’re living in the 1960s.” [tell that to the tax-payer].

Zakheim warned it may be difficult for the Pentagon to attract a top-notch CMO *unless*

too staggering to internally stabilize—let alone believe or understand.

Interestingly, these statistics appear to have had the same numbing effect on politicians and media moguls.

In fact, as I write this I can't feel my head.

You see, all of this alleged financial fraud at tax-payers' expense combined with the fact that no major media outlet has chosen to *doggedly pursue this abomination onto the front pages of our newspapers* is enough to weaken the strongest of democratic patriots.

And from my research, other than Catherine Austin Fitts and a few of her questioning associates, I don't know who else even cares about the disappearance of these trillions of tax-payer-obligated dollars?

I also don't know *why* no one else seems to care.⁹

Now, there is a very solid chance I don't understand what's really going on with this missing money. And I sure don't know any specific scams or names of who's in on its disappearance.

But I do know who has to pay for it—and that unaccounted for *trillions* by anyone's logic will erode the monetary worth and possibly the self-worth of the so-called average citizen.

This just can't be acceptable, with such potential for greatness, love, integrity and solidarity.

And so, if one is a writer and so-inclined, and wants to be of service, one must write.

ONTO CATHERINE

Catherine Austin Fitts calls this financial atrocity—because of its amount—an *economic coup d'etat*. With the hijacking of these funds, that much more of a democracy's

restrictive regulations on appointees' personal finances are relaxed."

"You're just not going to get Wall Street bankers and industry tycoons who really understand this stuff to go through the agony of the process" of investigations and financial divestitures required for top government jobs, he said."

What about the agony of a bankrupted, massively wealth and power centralized economy?

⁹ Less than 9,000 people have viewed this *youtube* piece by Vince Gonzales for CBS, where Rumsfeld holds a press conference and mentions the unaccountable trillions:

www.youtube.com/watch?v=ojlrT4bszWg. Where's the lovely Oprah when we need her?

integrity, intelligence, collective wealth, discernment and future pensions disappear.

Reading Catherine Austin Fitts, I get the feeling that, with her vast experience, her tonal kindness and humour, her courage and knowledge, she is offering great information on deeply complex and non-transparent subjects.

In some ways Catherine is *so* knowledgeable on these subjects, that even when she dumbs them down, there remain countless terms and concepts that appear for some as undecipherable hieroglyphics.

That's where I come in—after all, I'm one of those “for some.” Further, although I resound with Catherine's general thesis of fraud (given such absurd amounts of missing money), I know I need to grasp the jargon with both hands to really get my own understanding.

Fitts' knowledge, given her past, is no surprise. The truth is revealed when interviewer Jim Puplava¹⁰ says:

“Well, the other thing that you have, too, is even if you were to come from an accounting background like myself or yourself, you look at Fannie Mae's 10-K filings last year, they were 181 pages...

Puplava and Catherine both laugh. This is good, and understandable, but I don't have a background in accounting, and I'm Canadian, so Fannie Mae 10-K filings sound to me like a high-end porcelain, gold-trimmed dish set.

“**JIM:** ...I mean [Fannie Mae's 10-K filings have] become a novel! I mean it's almost like you have to become Sherlock Holmes¹¹ to really find out what it is that you're looking at, and even then you don't know what it is you have, because most people don't realize that the bulk of the \$[2] trillion ... and that number just astounds me in terms of its size.

CATHERINE: I know. It's kind of overwhelming. Let's make it simple.”

Ah, simple. Well, my dear Watson, for my own education, and in honour of the work and courage of Catherine and a few others, I am going to go through this interview and make it *simpler* for everybody—beginning with *moi*.

¹⁰ Jim's site *Financial Sense Newshour* is at www.financialsense.com/

¹¹ Conan Doyle's fictitious Sherlock Holmes was, for a time, a cocaine, morphine and caffeine addict—legally. Doyle's father was an alcoholic. See *Sherlock Holmes' Cocaine Habit* at bakerstreetdozen.com/coca.html and my *Noam Chomsky On Drugs* at www.petemccormack.com/ncondrugs.pdf

The Interview: America's Black Budget and the Manipulation of Mortgage and Financial Markets

Thursday, 27 May 2004, 10:18 am

JIM: Catherine, we've seen a lot of information and a lot of concern on Wall Street about the mortgage markets. We've seen consumers take on more debt when it comes to taking on bigger mortgages, refinance. But this story gets much bigger than just the credit itself.

CATHERINE: Sure. Where would you like to start?

JIM: (Laughter) Well, let's talk about black budgets and how the manipulation takes place in the mortgage and financial markets.

CATHERINE: OK. Let me start off with a story. When I became Assistant Secretary of Housing, I left Wall St. and went to Washington in 1989, and I walked into the FHA¹²,

¹² The Federal Housing Administration www.fha.gov/

As of 2007, Brian D Montgomery is the highest member of the FHA managerial staff: *Assistant Secretary for Housing—Federal Housing Commissioner*. This was the position that Catherine Austin Fitts held in the late 1980s.

From the FHA website:

“The Federal Housing Administration...provides mortgage insurance on loans made by FHA-approved lenders throughout the United States and its territories. FHA insures mortgages on single family, multifamily, manufactured homes and hospitals. It is the largest insurer of mortgages in the world; insuring over 34 million properties since its inception in 1934...

Congress created the Federal Housing Administration (FHA) in 1934 [in the middle of the Great Depression]. The FHA became a part of the Department of Housing and Urban Development's (HUD) Office of Housing in 1965.

When the FHA was created, the housing industry was flat on its back:

- Two million construction workers had lost their jobs.
- Terms were difficult to meet for homebuyers seeking mortgages.
- Mortgage loan terms were limited to 50 percent of the property's market value, with a repayment schedule spread over three to five years and ending with a balloon payment.
- America was primarily a nation of renters. Only four in 10 households owned homes...

By 2001, the nation's homeownership rate had soared to an all time high of 68.1 percent.”

Catherine writes this about HUD, in Ch 7 of Mapping The Real Deal www.scoop.co.nz/stories/HL0709/S00238.htm:

“When I told Nick Brady in 1989 that I was going to work at HUD, he said, “You can't go to

Jim, which at the time was a **\$300 billion portfolio of mortgage insurance**¹³, **about 80% of that was single family. So it's homes, homes that Americans buy, and it's sort of broad middle class/lower middle class.** And I walked in and I said to the guy who was supposed to be the Controller, and I said I'd like to see our financial statements.

So he delivered to my office about 20 pounds of books all on the budget, and I read it twice, and I called him and said "Look, I've read this thing twice—a couple of thousand pages—and I can't find out how much we are making or losing in the single family fund."

By law, the FHA commissioner has sole fiduciary responsibility [The individual officially designated as being responsible for a financial account or activity] to make sure that the \$50 to \$100 billion of mortgage insurance originated is self-sustainable. **So the premiums are supposed to fund whatever the defaults and losses are.**

So I said, "I can't find out how much money we're making or losing."

"Well that's because," he said, "It's not in the budget."

HUD — HUD is a sewer." While my experience as Assistant Secretary cleaning up significant mortgage fraud that lost the government billions during the 1980s confirmed that HUD's financial reputation was deserved, leading the FHA provided invaluable insight into how government management of the economy one neighborhood at a time really harms communities. Hence, access to the "real deal" on real estate and the mortgage markets was an opportunity. If you want to see the real economy in a place, you absolutely want an accurate map of the financial flows in that system — starting with the land and real estate. My favorite description of HUD was to come many years later from staff to the Chairman of the Senate HUD appropriation subcommittee—Senator Kit Bond. When asked what was going on at HUD, the Congressional staffer said, "HUD is being run as a criminal enterprise."

See also: www.dunwalke.com/gideon/fhalist.htm to read about HUD and Catherine's initiation into *tapeworm* economics.

¹³ From the FHA website:

What is FHA Mortgage Insurance?

FHA mortgage insurance protects lenders against loss if the homeowner defaults on their mortgage loan. The lenders bear less risk because FHA will pay the lender if a homeowner defaults on their loan. Loans must meet certain requirements established by FHA to qualify for insurance.

Why does FHA Mortgage Insurance exist?

Unlike conventional loans, FHA-insured loans require small down payments. There is more flexibility in an FHA loan than conventional loans in calculating household income and payment ratios. *The cost of the mortgage insurance is passed along to the homeowner and typically is included in the monthly payment. In most cases, the insurance cost will drop off after five years or when the remaining balance on the loan is 78 percent of the value of the property-whichever is longer.*

And I said, “Well where is it?”

And he said, “Well the accountants have it.”

And I said, “Well where can I find them?”

And he said, “They report to a different Assistant Secretary, you’re not allowed to speak to them.”

JIM: (Laughter)

CATHERINE: So I was a little bit taken aback. And to make a long story short, I had raised a lot of money for the first Bush, and so I lobbied extensively, and what I got was a pair of cufflinks, and the accountants moved over to report to me, it took about 2 months.

And so I could finally talk to the accountants, and they came in and I said, “How much are we making or losing in the single family fund?”

And they said, “We’re losing \$11 million a day.”¹⁴

JIM: Wow.

CATHERINE: Exactly, so I said, “Well, we have 10 regions and 80 field offices. Where are we making or losing money?”

And they said, “We don’t know that.”

And I said, “We mail out checks, we have zip codes, so it’s a crash emergency go-find-out.”

And they came back 2 months later, and it turned out we were making money in 8 regions, and losing money in 2 regions.

And I was also on the oversight board through the Secretary of the RTC [Resolution Trust Corporation]¹⁵, which was the cleanup of the S&L’s [Savings & Loans]¹⁶, and it

¹⁴ From the FHA Website:

How is FHA funded?

FHA operates entirely from self-generated income and costs the taxpayers nothing. The proceeds from the mortgage insurance paid by the homeowners are captured in an account that is used to operate the program entirely.

¹⁵ From Wikipedia: “The **Resolution Trust Corporation** was a US government-owned asset management company mandated to liquidate assets (primarily real estate-related assets, including mortgage loans) that had been assets of savings and loans associations (“S&Ls”) declared

was very much the same pattern. It turned out that the two regions—[region]1 was Texas, which included Arkansas, so you had both the Bush's and the Clinton's in the same region, and the second was in Colorado.

And what had happened, a significant part of what they called the S&L scandal and the HUD [Department of Housing and Urban Development] scandal was you literally had a financial fraud epidemic—it was called, some people call it Iran-Contra.¹⁷

insolvent by the Office of Thrift Supervision as a consequence of the Savings and Loans crisis of the 1980s.”

According to Joseph E. Stiglitz [former World Bank dissident Chief Economist (an oxymoron?) and deeply opposed to Paul Wolfowitz's hiring as WB leader] in his book, *Towards a New Paradigm in Monetary Economics*, page 243, the real reason behind *the need of this company was to allow the United States government [the tax-payer] to subsidize the banking sector in a way that wasn't very transparent and therefore avoid the possible [public] resistance*. This is supported by the fact that the banks had better information related to the loans than the RTC [Resolution Trust Corporation].

For a little more on Stiglitz, read this Greg Palast interview about the World Bank and International Monetary Fund at: www.dunwalke.com/gideon/privatization030402.html

¹⁶ From Wikipedia, the *Savings and Loans Crisis*:

Savings and Loans institutions (also known as S&Ls or thrifts) have existed since the 1800s [George Bailey's father, one might recall, ran a mom and pop Building & Loans in *It's a Wonderful Life*].

They originally served as community-based institutions for savings and mortgages. *In the United States, S&Ls were tightly regulated until the late 1970s. For example, there was a ceiling on the interest rates they could offer to depositors...*

The **Savings and Loans crisis** of the 1980s was a wave of savings and loan association failures in the United States in which over 1,000 savings and loan institutions failed in “the largest and costliest venture in public misfeasance, malfeasance and larceny of all time [*Inside Job*, by Steven Pizzo, Mary Fricker, and Paul Muolo].”

¹⁷ Catherine, in an interview at www.scoop.co.nz/stories/HL0203/S00066.htm:

“I was hired by the first Bush administration to help clean up 100 billion-dollar-sized financial frauds. *These had to do with Iran Contra, the S&L crisis, BCCI and the HUD scandal*. I was there for 18 months. When I left I was asked to become a governor of the Federal Reserve Board. I declined and instead started an investment bank and financial software firm. In 1996 and 1997, I was targeted by the [Department of Justice] and learned much more about Washington fraud and the depth of the financial scandals that the DOJ keeps hidden.”

For those who don't remember, the Iran-Contra Affair took place in 1987, during the Reagan administration. Despite congressional hearings (see Oliver North), its details remain secret. The general operation was the executive branch (also known as *the government!*, although Reagan pleaded ignorance) selling arms to Iran (run by arch enemy Ayatollah Khomeini) for money. This

But after you worked through it and learned all about it, we had a **significant black budget financial operation financing black budget projects with financial fraud**, whether it was through the S&L's or HUD.¹⁸

And all of that could happen because you did not have transparency.

So one of the things I got passed when I worked with a group of people in the Administration was a requirement that you produce audited financial statements for the 24 agencies of government.

One of the things I'd like to do is go through a little bit about that and tie it back to the mortgage bubble.

And so we got in the first Bush administration a law requir[ing] that the Federal government had to produce audited financial statements, which went into operation in 1995—they had about 4 years before they were required. And what happened when the first financial statements came out, was essentially most agencies could not comply, or produce audited financial statements.

And as of today, Jim, in 2004, the Federal government has yet to comply with the laws requiring audited statements for those 24 agencies, and the Treasury

money, then, *illegally* funded a proxy war (the so-called Contras) in Nicaragua against the Sandanistas (the FSLN or *Frente Sandinista de Liberación Nacional*).

The Sandinista's were a populist Leftist rebel organization in Nicaragua that overthrew the Somoza political dynasty/dictatorship in 1979. In 1984, through democratic elections, the Sandinistas were voted in by the populace.

Money from narcotrafficking out of Colombia—some of it “laundered” through the then-CIA-payroll-and-ally, Panamanian dictator Manuel Noriega, and sold (mostly crack cocaine in grand quantities) on the streets of America—almost certainly contributed to the Contra fund (see Gary Webb, John Kerry and the 1988 US Senate Committee on Foreign Relations Report).

¹⁸ From Wikipedia, Black Budgets:

“A black budget is a budget that is secretly collected from the overall income of a country, a corporation, a society of any form, a national department, and so on.

A black budget usually covers expenses related to military research [and one could assume, from the Iran Contra reference, counterinsurgency and proxy wars]...

The United States Defense Department has a “black budget” it uses to fund expenditures it does not want to disclose publicly.”

[Department]¹⁹ consolidated.

JIM: And yet they always need more money, but they can't account for where the money that they have goes.

CATHERINE: Right. In fact, in 2001 we did an estimate, and it turned out that **85% of the first Bush administration budget [was] going to agencies that weren't in compliance with the audited financial statements rules and reliable financial systems.**

Anyway, let me fast forward. In 1995, when HUD produced the first audited financial statements, they were published, and a fellow came to see me, and he said, "Look, there's been a terrible mistake. You don't understand, my family's been in business for many generations, and we've been tracking all the FHA mortgage insurance outstanding in the market since the FHA went into existence in 1934, and there's a terrible mistake—the **amount of outstanding FHA mortgage insurance in the markets is significantly more that is shown in these financial statements...**"

Now when the fellow came to see me, Jim, **I thought he was crazy because what he was saying was that the U.S. Treasury and the FHA were engaged in significant securities²⁰ fraud.**

In other words, what he was saying was that there was a significant amount of FHA & Ginnie Mae (or FHA related) securities outstanding than was shown in the financial statements.²¹

¹⁹ The job of the Department of Treasury is to manage Federal finances in line with the fiscal (monetary) policy set by the President, Congress and the Office of Management and Budget.

²⁰ See www.useconomy.about.com/od/glossary/g/securities.htm?p=1

I'm not great at grasping this, but: "Securities are any form of ownership that can be easily traded on a secondary market, such as stocks and bonds. It also includes their derivatives, such as future contracts, options or mutual funds..."

*From www.sify.com/finance/commodities/fullstory.php?id=13428584

"The term "Derivative" indicates that it has no independent value, i.e. its value is entirely "derived" from the value of the underlying asset. The underlying asset can be securities, commodities, bullion, currency, livestock or anything else..."

Even mortgages have been packaged to sell on the secondary market—these are known as mortgage-backed securities."

²¹ From Investopedia: A Forbes Media Company:
www.investopedia.com/ask/answers/04/032504.asp

Now, that's what I've come to believe is true.

In 1995, I thought the guy was nuts. **What has been evidenced over the last 7 years is that there is a pattern that suggests there is very significant financial fraud in the mortgage markets.** And let me tell you a little bit about why I believe that to be true.

After I left the Bush administration, the Secretary of Treasury asked me to go back in as a Governor of the Federal Reserve.

But I discovered the Internet when I was in HUD, and decided that **I wanted to create my own securities firm that specialized in financial software.** And I was convinced there was a tremendous opportunity to finance neighborhoods and places, and securitize [or turn into *securities*] small businesses and small real estate income and finance in the equity markets.²²

In other words, in a world of privatization, there's no reason why you can't finance a lot of municipal functions with equity [equity is ownership in "municipal functions" in the form of stock...]

So we wanted to do that, but a lot of **it depended on creating the software tools to let you really see how the money works by place.**

And part of what I discovered when I was Assistant Secretary is, because there's no

"A Ginnie Mae, or *Government National Mortgage Association security*, functions similarly to the process of lending someone money to purchase a house or business. Ginnie Mae buys home mortgages from banks and financial institutions, bundles them together, and then markets portions of these bundles to investors.

For example, if you invest \$100,000 in a Ginnie Mae, you are essentially lending someone money to buy a house or business with the help and the guarantee of a government organization. You would receive monthly payments consisting of interest on the loan and perhaps also a portion of the principal. These are similar to the payments a bank receives when it lends money to a home or business buyer. If it isn't included in the monthly payment, the principal is paid back at the end of a specified time period.

Ginnie Maes are the most popular type of mortgage backed securities because they are guaranteed by the U.S. government and usually provide higher returns than U.S. Treasury Bills. Plus, the market for these securities is highly liquid, so you're able to sell your investment in a relatively short period of time."

²² I think, the equity market is, essentially, the stock market—a "market" where company shares can be traded. As a rule, I think it is more volatile than what's called the debt market, and has been made more accessible by privatization and so-called freer markets, but I'm not sure why.

The *debt market* is where (I think), written promises to repay debts are traded. I assume this means mortgages, which are written promises to pay back a debt, but I'm not sure.

transparency in how the money works by place for government money, there's tremendous opportunities.

There are neighborhoods where, for example, HUD is spending \$250,000 per unit to rehab[ilitate] public housing, but you can buy a rehab single family in the same 3 or 4 block area for \$50,000.

So, to the extent that you can reengineer government money within a place, there's tremendous arbitrage²³ opportunities if you combine that with financing places with

²³ Arbitrage is the attempt to profit by taking advantage of price differences on similar products—in this case housing. I'm not sure how this is done, but I think it means you buy a rehab house for 50 grand, and figure out how to get into a relationship with the government who is spending \$250,000 to rehab that house.

From the STATEMENT OF SUSAN GAFFNEY, *INSPECTOR GENERAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT BEFORE THE UNITED STATES SENATE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS COMMITTEE ON GOVERNMENTAL AFFAIRS*. June 30, 2000 (pg 2):

“What makes a property flip illegal is when there is something amiss in the transaction. When we see properties with FHA mortgage insurance bought and sold the same day for a 50% or a 100% profit, we can be reasonably certain that something is wrong [one can also see how tempting this is]...

Unfortunately, these flips feed on each other as the inflated value of one flipped property becomes the valuation measure for the next property and so on and so on. Before long, these transactions have a devastating effect on neighborhoods.

I'm certain that for every property flip that results in a defaulted FHA loan, there are many others that go undetected as homeowners continue making payments on inflated mortgages. Our audits and investigations have indicated that flipping is increasing and has become a major problem for many communities.

What is similar about these communities is the high volume of older decaying properties and an eager group of potential, often unsophisticated, low-income buyers who are anxious to achieve the American Dream of home ownership. In many cases we find that the dream of home ownership turns into a nightmare as the property begins to need major repairs and the owner discovers that the property's real value is only a fraction of its original purchase price.”

This reminds me, of course, of what happened in post-Katrina New Orleans. It also reminds me, in a way, of what's happening with *Haliburton* in Iraq, where certain government military “jobs” or “functions” are privatized, taken over by, say, *Haliburton*. *Haliburton* then charges considerably, some might even say criminally more, for the same function. I have heard that for a three dollar load of military laundry, *Haliburton* charges something like a hundred dollars. Either way, the cost is paid for by the tax-payer, and *Haliburton* pockets the vast profit.

Roberta Baskin, award winning journalist and executive director of the *Center For The Public Integrity*: “No one has tried harder to get at those details [of the Iraq deals] than the watchdog group the Center For The Public Integrity. In a six month investigation, the Center found that

equity.

So we got very interested in doing that.

One of the things that happened was HUD later hired the company back [i.e. Catherine's software company] on competitive contract, to help with \$12 billion of defaulted mortgage auctions.

HUD was the last of the RTC—and the private financial institutions auctioned all their mortgages.

But HUD was kind of the Johnny-come-lately, and so hadn't done that, and we helped them do that between 1994 and '95 and '96.

They auctioned successfully about \$10 billion of mortgages.

What happened in that process was we were able to get the recovery rates—which had traditionally been [sold for] about 35 cents on the dollar [to the smart business exploiting price differences]—*beyond* the industry standards which was about 75 cents on the dollar. We got it up to about 70-90 cents on the dollar.²⁴

cozy insider relationships have become an accepted way of doing business in the fight against terrorism...”

But skeptics might be more easily persuaded if the government didn't shroud all this in so much secrecy. That secrecy makes it practically impossible to find out if those close to the administration are profiting off their inside information. And it makes it equally hard to find out if tax payers are getting their money's worth...”

²⁴ I think, with paying higher amounts on the dollar, this means there is less debt remaining from the defaulted loans, which means less debt for the tax-payer to take on. Conversely, at 35 cents on the dollar, certain people, having bought the property at that rate, accumulate great assets by buying at cut-rate prices. This is one of the reasons wars and Depressions can be so good for business for some people.

Catherine writes in *Mapping The Real Deal* at www.scoop.co.nz/stories/HL0709/S00369.htm:

“Our efforts at The Hamilton Securities Group to help HUD achieve maximum return on the sale of its defaulted mortgage assets *coincided with a widespread process of “privatization” in which assets were, in fact, being transferred out of governments worldwide at significantly below market value in a manner providing extraordinary windfall profits, capital gains and financial equity to private corporations and investors.* In addition, government functions were being outsourced at prices way above what should have been market price or government costs—*again stripping governmental and community resources in a manner that subsidized private interests.* The financial equity gained by private interests was often the result of financial, human, environmental and living equity stripped and stolen from communities—often without communities being able to understand what had happened or to clearly identify their loss. *This is why I now refer to privatization as “piratization.”*”

And then in 1996, [we] were targeted by ... the only way I can describe it, have you ever heard of the movie “Enemy of the State”?

JIM: Oh sure.

CATHERINE: OK. Well I have someone who introduces me at conferences and says “This woman played Will Smith in real life.” Do you remember the role that Will Smith played?²⁵

JIM: Oh absolutely.

One of the consequences was to steadily increase the political power of companies and investors who were increasingly dependent on lucrative back door subsidies—thus lowering overall social and economic productivity. *Hence, the doubling of FHA's mortgage recovery rates from 35% to 70-90% ran counter to global trends and ruffl[ed] feathers.*

FHA, with Hamilton's help, was requiring investors like Harvard Endowment to pay full price for assets while it appeared that they and investors like them were engineering progressively deeper and deeper windfall discount prices as part of government privatization programs elsewhere in the U.S. and globally.

A Federal False Claims Act lawsuit against Harvard and journalist coverage regarding their role as a USAID government contractor in Russia illuminated the extent of the windfall profits that they and members of their networks were able to engineer at the expense of the Russian people, investors and the American people.

A criticism that I now have that I did not understand at the time was that even efficiently and honestly executed privatization transactions such as the HUD loan sales policies which insist on open competition at the highest price run the risk of advantaging players who were the most successful at laundering money for the "black budget."

All solutions to this problem bring us back to the importance of place-based transparency of government resources and the importance of investing in the equity of small businesses and small farms.”

One might recall Mr Potter, the cruel tycoon in *It's A Wonderful Life* (1949), offering to pay cash up front to citizens wanting their meager bank savings, during a run on the bank, *at 50 cents on the dollar*. The citizens, panicking, almost sell. George Bailey (Jimmy Stewart), of the Bailey Building and Loan, talks them out of it:

“Can't you understand what's happening here? Don't you see what's happening? Potter isn't selling. Potter's buying! And why? Because we're panicky and he's not. That's why. He's pickin' up some bargain. Now, we can get through this thing all right. We've, we've got to stick together, though. We've got to have faith in each other.”

²⁵ Will Smith, playing a labour lawyer by the name of Robert Clayton Dean, is caught by circumstance in the middle of a murder of a Congressman by “rogue” elements inside the government. These elements then try and cover up what’s been done by intimidating and killing witnesses to the truth behind the murder.

CATHERINE: OK. Well what happened was we were targeted in a process where we [Hamilton Securities Group] went through a period of having 18 audits and investigations, and 12 pieces of litigation. And through that whole sort of enforcement process, the honest people were pushed out of HUD.

And they pushed my company, and a series of other honest contractors and government officials out.

And what happened in the year following that is HUD failed to produce audited financial statements, and reported undocumented adjustments of \$59 billion, that was in fiscal 1999.²⁶

And throughout government in fiscal 1999 thru 2000/2001, there were reports of not only failure to produced audited financial statements, **but about \$3.4 trillion of undocumented adjustments.**²⁷

Very, very significant. That works out to about \$11,000 per American resident.

²⁶ “Undocumented adjustments” is a term used for missing funds—with the IRS, my friends, don’t try this ploy at home. Undocumented adjustments are what Donald Rumsfeld described when he said: “According to some estimates we cannot track *2.3 trillion dollars* [of Pentagon transactions].” Often missing funds of this manner are related to covert operations and smuggling.

Consider this, from an essay I wrote called *Noam Chomsky On Drugs: Part VI* at www.petemccormack.com/essays_NCdrugs6.htm:

From Dr Gerard Dubois of the *Alliance Contre Le Tabac* in France, as quoted in the film *The Tobacco Conspiracy* (2005):

“The governments of Belgium and France are among the ten countries that support the European Commission in a suit filed against [the cigarette and food Multinational] RJ Reynolds.

The charges: organized smuggling, money laundering, corruption. Of the thousand billion cigarettes exported every year, 700 billion are legally imported. Three hundred billion have simply disappeared...

Try to Imagine Toyota saying, ‘Somewhere between Japan and Europe, 30% of the cars we loaded onto the ship [have] just vanished. We can’t understand it. We don’t know where they went.’

Smuggling is not a natural phenomenon [I love that line].

It’s organized by the industry.”

²⁷ See www.wheretheismoney.org/

JIM: Where do all these losses get booked?

CATHERINE: What was happening annually, starting in 1995, the Federal government, the auditors underneath the auspices of each agency's Inspector General, would come forward and say, "This year we could or could not produce audited financial statements..."

And part of the reason is that we have undocumentable adjustments of \$59 billion, or whatever the number was.

And so in this annual sweep up whereby the individual Inspector Generals would report into the Secretary of the Treasury and to the General Accounting Office²⁸ (which is the auditor for Congress), it would come in through this annual sweep, and they would come in and say, "OK, we can't produce audited financial statements, and we have this much of undocumentable adjustments."

At some point after the numbers got really crazy, they just decided after 9-11 to stop reporting them.

Now, when people say to me "What is \$3.3 trillion of undocumentable adjustments?" let me give you an example:

In fiscal 2000, the Department of Defense had \$2.3 trillion in undocumentable adjustments.²⁹ OK now, there's no way for us to know, Jim, how much of that translates into cash **because \$2.3 trillion is more than total taxes paid in a year by...say tax payers in that year would have paid taxes of about \$1.6 trillion.** So, there's no way to know if \$2.3 trillion translates into how much cash, or how much cash is missing.³⁰

²⁸ Keeping the same acronym (GAO), the *General Accounting Office* has, under recently passed legislation—and I'm not kidding—changed its name to the *Government Accountability Office*. You might recall the *Department of Defense* was once the *Department of War* (changed August 10, 1949).

²⁹ I can barely comprehend it at all, with my accountant-disadvantaged brain, but if you're up for it and clever, read what Franklin C. Spinney, *Staff Analyst at Department of Defense*, has to say at www.d-n-i.net/fcs/spinney_testimony_060402.htm. In short, he writes: "...the breakdown in the link between the past and present carries with it profound managerial, constitutional, and moral implications. The historical accounting shambles is a crisis, and it must be rectified as soon as possible, but this is only half the story: We face a double crisis, because the accounting systems that link the present budget to the future are also a shambles."

See also *Pentagon's Messy Books Defy Auditors* at www.newsobserver.com/100/story/399475.html

³⁰ On the Website Where is the Money (www.wheretheismoney.org/FAQ-detail.htm#FAQ09), the question is asked: how can we be missing more than the total budget?

What we do know is that under the laws of the Constitution—which say money cannot be spent unless it is appropriated³¹—it is essentially a violation of the Constitution to do that, **with one exception.**

And this is where the black budget comes up.

There are provisions under the National Security Act of 1947 and the CIA Act of 1949 for military and military intelligence to “crawl” money from outside of different agencies’ budgets, and spend it on non-transparent purposes.

That’s sometimes why it’s called the “black budget.”

And what I found out both as Assistant Secretary of Housing, and then what I found with my company...and with the group of honest guys kicked out of HUD, was you had an agency [HUD] whose legal purpose and political purpose was to help finance the mortgage markets, [and] **whose mortgage insurance programs were increasingly caught up in financing black budget operations.**

And this is very much tied to what’s going on in the mortgage markets.

By any chance Jim, do you watch the Soprano TV show?

JIM: I don’t watch television, but I’m aware of some of the themes and things that go on in the program.

CATHERINE: Congratulations on that, because I don’t watch TV either.³²

The short response: “This can happen when a federal government is experiencing the financial equivalent of a *coup d’etat*. Our number one favorite to win is federal credit fraud—government insiders issuing securities or guarantees privately or fraudulently—combined with central bank complicity in printing currency and manipulating the gold market. Stealing inventory to sell, such as tanks, jeeps, and weaponry, is also a good bet. Federal credit and inventory are physical assets that are separate from the budget, and are generally *much* larger than the annual budget.”

According to the *Defense Industry Daily*, “The [Department of Defense] also has \$1.3 trillion in assets (Wal-Mart: \$120 billion) and \$1.9 trillion in liabilities (Wal-Mart: \$20 billion).” See www.defenseindustrydaily.com/the-pentagons-broken-bookkeeping-01945/

³¹ Taken and used, generally illegally or without permission.

³² I don’t even *have* a TV but I spend a lot of time on the computer footnoting other peoples’ interviews, because I’m a nerd. Despite some good programming, the fact that nearly no Americans know about the missing trillions—as opposed to *every* American *should* know about a missing 2.3 trillion, just like they know there’s a war in Iraq—speaks volumes about the deeper functions of television.

JIM: (Laughter)

CATHERINE: Approximately 2 years ago, one of the things that developed on the Soprano TV show was that Tony Soprano's new big business was HUD financial fraud.

And it's interesting that the financial fraud that Tony Soprano was doing was very much one of the predominant kinds of fraud in the HUD single family portfolio, but one of the one's used to finance the black budget, and one of the models that was very prevalent during Iran-Contra.

JIM: You know, it's amazing, Catherine, as we've seen the U.S. develop more into a financial economy, I guess a sign of the times, the mob moves into mortgage finance.

CATHERINE: Yeah, it's really simple. If you had a company, Jim, that was not being productive, the way that that would stop is that ultimately somebody would pull the financing on you. Your bank would pull your financing, the SEC [Securities and Exchange Commission] would not let you finance in the stock market at some point. If you had a local or state government the credit agencies would pull the plug on you.

But part of the problem we've had in this country is that we have a Federal Governmental apparatus that can be non-transparent, not follow the laws of how money is supposed to work, function outside the boundaries of the law, and yet continue to finance.

The New York Fed and the Federal Reserve can continue to print currency, and continue to borrow a significant amount of money in the securities market outside the boundaries of the law.

And the problem we have as investors is...you know, one of my favorite people, and he's been on your show before, is Bill Murphy and the guys at GATA [the Gold Anti-Trust Action Committee]. They've done a terrific job of documenting the manipulation in the gold markets.

And for many years, I've tried to get Bill to understand that the manipulation in the gold markets that he's dealing with is the same people and same players that are manipulating the mortgage markets and the mortgage bubble.

And they can do it, whether they do it in the gold market or the mortgage markets because they have access to a Governmental apparatus and financing apparatus which is non-accountable and not transparent.

JIM: Catherine, this raises another subject in addition to your own experience. This

That \$2.3 trillion is unaccounted for at the DoD, speaks volumes to anyone not overly indoctrinated by words like "the market" or "liberal" or "democracy"—and surely there's nothing "conservative" about \$2.3 trillion missing.

weekend's edition of Barons did an article called "Swept Away"—**it was how Fannie Mae³³ keeps its losses from sullyng the bottom line.**

And many investors may not be aware of the way the derivatives market works, but certain kinds of investments, if they're held for the long-term, or carried on the balance sheet at cost (you never market them to market), other investments that are considered for trading purposes are marked to market, **but there are certain accounting rules that allow not only what you saw at HUD, but organizations like Fannie to sweep losses onto the equity statement of their balance sheet.**

CATHERINE: Right. I think the hardest thing about being an investor today is how do you get accurate information about the real values ... how do you understand what Fannie Mae or Freddie Mac's portfolio is really worth? How do you trust the books?

And it's unnerving because the market...you know, part of the thing that's keeping the stock prices where they are from what I see is tremendous manipulation within the markets.

So we're looking at and tracking a political economy, not something that behaves according to traditional economics. **Because you're not looking at honest books, and you're dealing in a situation where...you know, if in 1 year the Federal Government is missing \$2.3 trillion, where does that money go, and where is it being reinvested?**

³³ According to the Fannie Mae website: "Fannie Mae is a shareholder-owned company with a public mission. We exist to expand affordable housing and bring global capital to local communities in order to serve the U.S. housing market.

[C]reated in 1938, under President Franklin D. Roosevelt...Fannie Mae has a federal charter and operates in America's secondary mortgage market to ensure that mortgage bankers and other lenders have enough funds to lend to home buyers at low rates. Our job is to help those who house America.

In 1968, Fannie Mae was rechartered by Congress as a shareholder-owned company, funded solely with private capital raised from investors on Wall Street and around the world."

According to Catherine Austin Fitts in a damning yet clear essay called *Mapping the Real Deal* at: www.scoop.co.nz/stories/HL0709/S00328.htm:

"Fannie Mae has been a leading player in *centralizing control* of the mortgage markets into Washington D.C. and Wall Street. And that means as people were rounded up and shipped to prison as part of Operation Safe Home, Fannie was right behind to finance the gentrification of neighborhoods. And that is before we ask questions about *the extent to which the estimated annual financial flows of \$500 billion–\$1 trillion money laundering through the U.S. financial system or money missing from the US government are reinvested into Fannie Mae securities.*"

One starts to observe that the process of chronically increasing incarceration isn't just too marginalize groups of people, it's to marginalize groups of people and make a fortune by doing so. It's become a truism that some get rich on war. You can follow that template with the War On Drugs.

That's a huge cash flow that can take the markets one way or another.

JIM: Well, the other thing that you have too is even if you were to come from an accounting background like myself or yourself, you look at Fannie Mae's 10-K filings last year, they were 181 pages ...

CA & JIM: (Laughter)

JIM: ... I mean [Fannie Mae's 10-K filings have] become a novel! I mean it's almost like you have to become Sherlock Holmes to really find out what it is that you're looking at, and even then you don't know what it is you have, because most people don't realize that the bulk of the [\$2] trillion...and that number just astounds me in terms of its size—

CATHERINE: I know, it's kind of overwhelming. Let's make it simple. Because 5 years ago I decided that I was going to start traveling around the country by car to see what was really happening on the ground. Because I think you can always understand an economy by simply walking around and, you know, when I was on Wall Street I used to do due diligence by going to the company and just going up and down in the elevator and talking to the secretaries.

Let's talk about what things look like on the ground in America, and what that means to the credit of a Freddie Mac³⁴ or a Fannie Mae.

In the mid-90's, Jim, we knew that a huge amount of jobs and income-generating activities in America were going to get outsourced to Asia.

I mean, those decisions were made in the early 90's, and we knew that was going to happen.

And I was a leader in Washington promoting a model whereby Americans paid down their debt, refinanced their communities and themselves on an equity basis [equity, I believe, is meant here as an ownership interest in the form of a common stock in some

³⁴ I can't quite grasp the transaction flow, or what it means, but according to the Freddie Mac Website: "[Freddie Macs] connect Main Street—the residential mortgage market—to Wall Street—dealers and investors—through our mortgage purchase, credit guarantee and portfolio investment activities..."

Freddie Mac also purchases mortgage loans and mortgage-related securities and holds them in our Retained Portfolio for investment purposes.

Here's how it all works for residential single-family mortgages:

A homeowner sends the monthly payment to the lender or a mortgage servicer that manages the payments. The servicer keeps a small fee for managing the borrowers' payments and sends the rest of the monthly payment to Freddie Mac. Freddie Mac passes through the remainder of the mortgage payment to investors who hold our mortgage securities."

sort of community “corporation”], and redeveloped their skills.

I mean, we knew the workforce was going to have to reengineer itself, and our pension funds and retirement arrangements were not going to be financially credible unless the workforce reinvented itself, and paid down its debt, you know...

So we knew then we had a problem. And what happened is was **my team was kicked out of Washington, and a decision was made—instead of reengineering folks’ skills, or migrating them to equity and starting new businesses...a decision was made to float the economy on the biggest wave of debt that I can imagine.**

And what we’ve done is we’ve seen consumer debt skyrocket.

I have a member of my group, the Solari Action Network, who **reconfigures the BEA’s [the US Bureau of Economic Analysis] statistics once a quarter**, and what his calculations show is very much what I see on the ground in communities throughout America, Jim, which is **the average American household has income of \$32,000 per year, they have expenses of \$37,000 per year, and they finance that \$5,000 per year deficit [by] liquidating assets [selling what they own], working harder, or borrowing more.**

And of course as you know, and it’s clear from your website, that the debt has gone...not just the consumer debt has gone up-up-up, but the mortgage debt has gone up-up-up.

And now, **that load is just increasing every year, and meantime we are accelerating moving all the jobs and income abroad.**

Now, when you move all your income abroad, and you leave your growing debt at home, it doesn’t take long to understand what’s going to happen to a Fannie Mae or Freddie Mac or a Ginnie Mae. At some point the growing debt has got to get serviced, and the question is how?

You can flood the country with immigrants who can buy up real estate that you finance at the bottom, but at some point something’s got to give in the middle.³⁵ I mean, if you

³⁵ To “flood the country with immigrants” and simultaneously outsource jobs to cheaper labour pools will have an effect obvious to the simplest logic. One thing to know about “a flood of immigration”—forgetting for a moment the morality of the issue—is that it allows an increase in production for low wages. Which is why the *something* that has to give in the middle, is the middle class.

It’s like throwing in strike-breakers or so-called scabs all the time, even when there is no strike. Worker leverage and thus worker power has to drop, as will wages—and they have stagnated in real terms for some 25 years, according to many sources.

shrink and collapse the middle class, they're going to default on their mortgages.

JIM: You would think, Catherine, though given the size of this Credit bubble that we're creating—not only in mortgages, in the bond market, the proliferation of hedge funds³⁶ that literally move large amounts of money in and out of the market—people would be paying more attention to debt.

But I hear stories, you get these people on Wall Street that say we have no inflation, and the other side of that story is as long as the Fed raises interest rates at a measured pace, the stock market will continue to go up and consumers will continue to spend money.

None of that makes sense to me.

(From the footnotes of Chomsky's *Understanding Power*) See for example, Lawrence Mishel, Jared Bernstein and John Schmitt, *The State of Working America, 1998-1999*, Ithaca: Cornell University Press, 1999, ch. 3. An excerpt (pp. 120, 119):

“[T]he wages earned by new high school graduates has continued to decline, although more slowly in 1989-97 as in the 1979-89 period. The result is that the entry-level wages of high school graduates in 1997 were 27.6% less for young men and 18.3% less for young women than in 1979... Many high-wage workers, particularly men, failed to see real wage improvements in the 1989-97 period. Male white-collar wages, including those for managers and technical workers, have been stagnant or have declined, and the wages of male college graduates have stagnated and remain below their level of the mid-1980s or early 1970s. The wages of new college graduates have declined by 7% among both men and women over the 1989-97 period despite a recent upturn, indicating that each year's graduates are accepting more poorly paying jobs than their counterparts did at the end of the 1980s.”

See also chs. 1, 3 and 8. An excerpt (pp. 83, 381-382):

“[A]mong married-couple families with children in the middle fifth [of income distribution], hours of work grew 6.9%, or 247 hours since 1989. Since 1979, these middle-class families added 615 hours, more than 15 weeks of full-time work to their schedules. While these added hours have surely helped to raise middle-class income, they also leave significantly less time for nonmarket activities... Workers in the United States worked, on average, more hours per year (1,952) than workers in any of the other countries, even more than the historic leader in hours worked, Japan (1,898)... The U.S. average [of vacations], about 16 days per year, is below the statutory minimum in all but two of the [European] countries in the [accompanying] figure.”

³⁶ From Investorwords.com:

“A [hedge fund] is a fund, usually used by wealthy individuals and institutions, which is allowed to use aggressive strategies that are unavailable to mutual funds, including selling short, leverage, program trading, swaps, arbitrage, and derivatives. *Hedge funds are exempt from many of the rules and regulations governing other mutual funds, which allows them to accomplish aggressive investing goals.* They are restricted by law to no more than 100 investors per fund, and as a result most hedge funds set extremely high minimum investment amounts, ranging anywhere from \$250,000 to over \$1 million. As with traditional mutual funds, investors in hedge funds pay a management fee; however, hedge funds also collect a percentage of the profits (usually 20%).”

CATHERINE: (Laughter). It makes no sense, unless you...let me give you an example.

Last year we appropriated \$87 billion for Iraq, but the administration repeatedly says it can't explain where half of that money is going.

It was interesting, one of the top reporters who followed the \$3.3 trillion of missing money, I asked him the other day, I said, "Where do you think the \$87 billion went to?"

And they said, "Well, we think it went to finance the states' deficits, because they were screaming about the states' deficits, and then all of a sudden it stopped."³⁷

We've had a complete implosion of internal financial controls in the governmental apparatus.

\$3.3 trillion missing from government is a financial *coup d'etat*.

You can keep a bubble going as long as you can finance it. And my guess is—again very much credited to Bill Murphy—what we're watching is a securities operation both with the Federal agencies, the mortgage agencies, and the U.S. Treasury, which are financing a political economy.³⁸

The money that comes in from those debt operations are being used for other than their lawful purposes.

Here's the question: If we're manipulating the gold market, who's financing that? Who's financing the money that it costs to manipulate the gold market? Well, **if \$2.3 trillion is missing in a year, that's plenty enough to manipulate the gold market and a lot of other markets.**

JIM: You know, you would think though, Catherine, and this is why I just wonder if we're coming up against some headwinds here, because certainly even though you can manipulate markets, you can bring interest rates down, you can keep asset prices inflated,

³⁷ Catherine is using the utter implausibility of this statement to point out how the system is so broken, so out of control, a reporter could actually believe this.

³⁸ According to Wikipedia, a "political economy", in the modern context "...most commonly refers to...how political institutions, the political environment, and the economic system—capitalist, socialist, mixed—influence each other. *When narrowly construed, it refers to applied topics in economics implicating public policy, such as monopoly, market protection, government fiscal policy, and rent seeking.*"

According to Wikipedia, "Rent seeking occurs when an individual, organization, or firm [or governmental authority] seeks to make money by manipulating the economic and/or legal environment rather than by making a profit through trade and production of wealth."

but let's bring this down to Main street.

You've driven around looking at these communities. If people are losing their jobs, if the jobs are going overseas, if they're downsized where they're not making the same kind of income they used to make let's say 5, 10, 15 years ago, they're adding more debt, even though that debt is at a lower interest rate, there comes a point where you can't get any more debt, nobody wants to give you another credit card, or the bank simply will not give you another home equity loan.

I mean at some point you run up against a wall.

CATHERINE: Right, and that's where we are.

I'm in Washington DC today, but I live in Hickory Valley Tennessee. In western Tennessee, in many of the communities, we're in a state of depression. I mean, the middle class is essentially being wiped out. And you're absolutely right, without that fundamental productivity in the economy, there can be no economic gains. Now you can get some economic gains by moving in lots of immigrants.

I mean, my impression, Jim, is that the borders are open, and **America is experiencing very rapid immigration, and that's part of what's keeping the economy propped up.**

You can also keep activity going as long as you can finance the U.S. economy by borrowing more money, and printing more dollars, and pushing more dollars out.

But we've reached a point where immigration and warfare are two economic activities after a bubble—**but what we've been watching for years in this country is very significant falling productivity...**³⁹

JIM: Explain the productivity miracle that [former Federal Reserve Chairman Alan] Greenspan trumpets every time he's on top of Capitol Hill.

CATHERINE: We're running the economy to centralize wealth.

³⁹ Paul Kennedy wrote in 1988, in his book *The Rise and Fall of the Great Powers*, when the world was still, theoretically and just barely, bipolar in terms of power (696-697):

“...the history of the past five hundred years of international rivalry demonstrates that military ‘security’ alone is never enough. It may, over the short term, deter or defeat rival states (and that, for most political leaders and their publics, is perfectly satisfactory). But if, by such victories, the nation overextends itself geographically and strategically; if, even at a less imperial level, it chooses to devote a large portion of its total income to ‘protection’, leaving less for ‘productive investment’, it is likely to find its economic output slowing down, with dire implications for its long-term capacity to maintain both its citizens’ consumption demands and its international position.”

We're using what I call a negative return on investment Governmental apparatus, both the budget and the credit and regulation, to centralize bank deposits, centralize purchases, centralize investments.

We're centralizing political and economic power.”

As Catherine has said before—and it brings to mind economist EF Schumacher's *Small Is Beautiful*:

“Citizens require **accessible information about “how the money works” to understand their political representatives’ and governmental organizations’ budgets and actions and hold their representatives and themselves accountable for actual performance.** Likewise, consumers, entrepreneurs and workers need accessible and low cost information to optimize preferences and self-interest in the marketplace.

Without place-based transparency, government and market allocation of resources in the U.S. has become increasingly manipulated and sub-optimal in terms of economic performance. The deterioration of the rule of law has accelerated, with organized crime rising as a percent of economic activity and capital investment.

As this happens, total wealth and productivity shrinks from the optimal and concentrates into fewer hands. There is a shift from small business and farming to corporate control and production that is not merited by fundamental economics. **Leadership is increasingly determined by performance in capital control and asset shifting rather than wealth creation.**

The citizenry has experienced deterioration in standards of individual and civic responsibility and accountability.”

And in the process of that, we're doing not what I call privatization—privatization is when you transfer government assets to private investors at market price. “Piratization” is when you transfer government assets to private investors at significantly below market prices.

So we're going through the process of using the Governmental apparatus to centralize economic power and wealth in a way that shrinks the total pie.^{40 41}

⁴⁰ From Maude Barlow and Tony Clarke, *M.A.I. (the Multilateral Agreement on Investment) and the Threat to American Freedom*, New York: Stoddart, 1998, as cited in the footnotes for Noam Chomsky's *Understanding Power* (pg 50):

“Despite robust economic growth, the [Council on International and Public Affairs]’s study reveals that the real wages of U.S. workers have declined by 19.5 percent from their level of twenty-five years ago [1973-1998]. Indeed, virtually all of the income gains during the past decade have reportedly gone to the top 5 percent of American families, thereby dramatically increasing inequality and poverty in the country.

And Greenspan's job is to put a pretty face on that. **And the mortgage bubble's job, and the U.S. Treasury securities fraud, is to finance that.**

So it's good for Greenspan, it's good for the people he works for, it's terrible for the economy, and it's certainly terrible for people like you and me.

And an honest finance guy is at a huge disadvantage in this environment.

JIM: It almost seems like we're turning the population in the U.S. into economic serfs, because you know, you take a two income family today, between what it costs to buy a house, own two cars and make payments, and send your kids to school, there's nothing left over.

CATHERINE: Well think about it this way...say the average taxes per resident is about \$5,000. And 85% of that, or say \$4,700 [\$4,250] is going to agencies who refuse to produce audited financial statements or reliable financial systems.

And if you study the black budget, increasingly what you're seeing is that money is going to support private corporations and private banks who are using those resources to basically steal community assets out from under them.

So you're basically financing an operation which is stealing all your political powers and economic wealth. It's a dream [or a nightmare].

⁴¹ From CommonDreams.org, July 24, 2007, Holly Sklar writes:

“[I]n 1997, Business Week declared CEO pay was “Out of Control.” Since then, CEO pay has gotten more out of control.

Average CEO pay at the top 500 companies jumped 38 percent to \$15.2 million in 2006—the year we broke the record for the longest period ever without a raise in the federal minimum wage...CEOs make more in 90 minutes than minimum wage workers make in a year.

The two longest periods in history without a minimum wage increase have occurred since 1980. Those long draughts without a raise have left minimum wage workers in the dust.

In 1980, the average CEO at a big corporation made as much as 97 minimum wage workers. In 1997, the average CEO made as much as 728 minimum wage workers.

Last year, CEOs made as much as 1,419 minimum wage workers...

Between 1980 and 2006, worker productivity went up 70 percent, average worker wages went nowhere, the minimum wage fell 32 percent, and domestic corporate profits rose 256 percent, adjusting for inflation...

Adjusting for inflation, men in their thirties make less today than their fathers' generation made in the 1970s.”

JIM: Yeah, what this is, is a giant wealth transfer. And I remember, was is it Hayek's book "The Road to Serfdom" ...

CATHERINE: [Catherine proceeds to expand on her alternative "open source" model of community equity financing...i.e. "securitizing" small business income...quoting Catherine, "I mean, why do we need a big corporation to come in and privatize our water? Why don't we just privatize our water, create a liquid security, and get the capital gains for ourselves?"]

Catherine stresses decentralized economies, complete transparency, local ownership, awareness and control of what goes on in their own lives. In *Solari and the Rise of the Rule of Law* she writes:

"The speed at which US citizens **reengineer their "shared intelligence" and learning speeds locally** will determine the extent to which the US is able to avoid the economic dilution and/or demodernization and depopulation experienced by Russia, Argentina and other areas of the world that have experienced an implosion of the rule of law and the resulting "continuous consolidation of money and power into higher, tighter and 'righter' hands."

And again:

"There are tremendous opportunities to reengineer this. Because whenever you have an economy that is this unproductive and this negative, if and where you can turn it around, the capital gains opportunities are absolutely enormous."]

JIM: ... So, maybe this is a grassroots movement that begins at this kind of level, Catherine, because certainly large corporations today are outsourcing our jobs.

And it's really the small businessman whose local that is the creator of jobs.

CATHERINE: Absolutely. But right now, you know if you come to a Rotary International lunch, right now the local small business guys are playing with multiples of 1 to 5 times, and they're getting clocked by the large corporations, because they can finance at multiples of 20 and 30 times ...

JIM: What has been the reception to this so far?

CATHERINE: Well, so far the reception has been tremendous, except from the Department of Justice and the Black Budget guys (laughter).

We were prototyping 100 of these in 1998, Jim, and part of it was we had a software tool called *Community Wizard*, where you could dial in, say if you lived in San Diego, you could dial into *Community Wizard* and start to download all the data about how the money worked in San Diego.

And what we didn't realize at the time, because we were just naïve, was that that was illuminating a lot of the black budget fraud that was in the Federal mortgage portfolios.

And, for example, when I was Assistant Secretary [*for Housing—Federal Housing Commissioner*], I'd get these inventories that said we had 10 buildings on this block and I'd go fly there and I'd go drive by the block, and there'd be no 10 buildings there.

So the problem was when *Community Wizard* would illuminate, you know, the databases on what the Federal Government was doing in the mortgage business, and citizens in their community could get those numbers and police them, and see the money contiguous to the world where they walked around and drove around, and the lies came to the fore... And now wherever I go, I get tremendous and positive response...

You know, I'm a great believer that centralization is really nowhere near as productive as decentralization.

JIM: Catherine, getting back to the other economy that's out there now, the Credit Bubble, Fannie Mae, Freddie Mac, all of this Credit financing, what's your view in terms of how this ends?

I can't help but see this whole thing crumbling, and maybe it's a private initiative that rises from the ashes such as the things that you're proposing that rebuild this economy, because certainly we have hollowed out this country in terms of what we've done to manufacturing. **And you can't create wealth by just printing money and borrowing money.**

CATHERINE: Right. I think there are two scenarios.

One is the bust, which is this thing keeps going as long as it can be financed by the U.S. governmental apparatus, and at some point, you know, as the Japanese and everyone else says, 'We're not buying any more of this, we're not taking more dollars,' the thing busts.

And when it busts, what you're going to have is—it's going to be 1929 but worse.

Because in 1929, there was a lot of social capital⁴² in America. It was a much kinder,

⁴² Social capital tends to refer to giving "value" to connections between people, between social networks. For me, the word solidarity comes to mind. Catherine's comment to the lack of social capital is probably indicative of today's increased community isolation, not knowing one's neighbours, fear on the street (Catherine's "popsicle index") and "individualized" living. Put another way, how often do we say hello to a stranger? Why not all the time? How often do we gather to literally share ideas and to be active?

There is, at the same time, a great deal of this solidarity, with unprecedented amounts of access to information (real and bogus) for large portions of Western society; gatherings of networks under

gentler place I think than it is now. And you had many more people that knew how to grow their own food, or knew how to function. So one scenario is the bust.

The other scenario though, Jim, is the Orwellian scenario, which is we've reached a point, and I've written many articles about this, where **rather than let financial assets adjust, the powers-that-be now have the control of the economy through the banking system and through the governmental apparatus.**

They can simply steal more money, keep financial assets—you know whether it's the stock market pumped up, the derivatives going, or the gold price manipulated down.

And they simply liquidate all living things rather than let the economy go bust.

In other words, **you can adjust to your economy not by letting the value of the stock market or financial assets fall, but you can use warfare and organized crime to liquidate and steal whatever it is you need to keep the game going.**

And that's the kind of Orwellian scenario whereby you can basically keep this thing going, but in a way that leads to a highly totalitarian government and economy [and] corporate feudalism.

JIM: It almost sounds like we're heading in that direction in some sense in terms of the words that they use, the way the statistics are manipulated: "seasonally adjusted." (laughter) I love those words.

"Seasonally adjusted." What does that mean?⁴³ Does that mean they're going to make the weather go away? I mean we'll just have sunshine every day.

When you take labor numbers where we have 7 or 8 thousand actual jobs created, and I call them hypothetical jobs, we turn them into 300,000 jobs.⁴⁴

undesigned, non-sectarian labels, often with a collective desire to promote and advance unsustainable modes of living. Although I haven't read it, you might want to see Paul Hawken's book *Blessed Unrest: How the Largest Movement In the World Came Into Being and Why No One Saw It Coming* for a little inspiration.

⁴³ Seasonally adjusted or seasonally adjusted data takes into account modifications in, say, employment, that take place due to seasonal differences and fluctuations. If labour statistics are gathered, say, monthly, tourism, holidays, agricultural growing periods and even climate can play a role. Overall, surely, they are next to irrelevant—for we begin to have job stability measured on a season-to-season, or month-to-month, or for some, day-to-day basis, which can only increase insecurity.

⁴⁴ I'm not sure if Jim's comments have any statistical merit, but unemployment statistics are confusing even if they aren't manipulated. And like so many polling statistics, depend on the questions asked. This excerpt from economist Walter J. "John" Williams: *Employment and Unemployment Reporting*, August 24, 2004 <http://www.shadowstats.com/cgi-bin/sgs/article/id=341>:

Or you have inflation statistics that take everything that goes up and then adjust it for quality adjustments so there's no price increases ...

CATHERINE: Right, those statistics have really reached a point where they're just almost worthless.

My vision is citizen controlled and led transparency because at this point I just don't trust government to provide it.

We're looking at an economy that is phenomenally manipulated and unfortunately, Jim, digital technology has allowed a level of manipulation that people like you and I just couldn't envision.^{45 46}

“Suggesting that the household survey is more accurate than the payroll survey, however, does not mean household survey accurately depicts unemployment. While its measures have definable statistical accuracy, the accuracy is related only to the underlying questions surveyed and to the universe of people surveyed.

The popularly followed unemployment rate was 5.5% in July 2004, seasonally adjusted. That is known as U-3, one of six unemployment rates published by the BLS. The broadest U-6 measure was 9.5%, including discouraged and marginally attached workers.

Up until the Clinton administration, a discouraged worker was one who was willing, able and ready to work but had given up looking because there were no jobs to be had. The Clinton administration dismissed to the non-reporting netherworld about five million discouraged workers who had been so categorized for more than a year.

As of July 2004, the less-than-a-year discouraged workers total 504,000. Adding in the netherworld takes the unemployment rate up to about 12.5%.

The Clinton administration also reduced monthly household sampling from 60,000 to about 50,000, eliminating significant surveying in the inner cities. Despite claims of corrective statistical adjustments, reported unemployment among people of color declined sharply, and the piggybacked poverty survey showed a remarkable reversal in decades of worsening poverty trends.

Somehow, the Clinton administration successfully set into motion reestablishing the full 60,000 survey for the benefit of the current Bush administration's monthly household survey.”

⁴⁵ In *Hot Money and the Politics of Debt* (1994, pg 12), Professor of Economics RT Naylor quotes William Mulholland, former CEO of the Bank of Montreal, upon being questioned by the Canadian Senate on the ‘efficacy of the bank-regulatory apparatus’.

Mulholland responds: “I can hide money in the twinkling of an eye from all the bloodhounds that could be put on the case, and I would be so far ahead of them that there would never be a hope of unraveling the trail. I am not kidding you. Technology today means that sort of thing can be done through electronic means.”

But yeah, I think it's very hard for me to fathom how we can avoid the bust scenario.

But in theory we can, as long as we continue to finance it, and part of that is rolling out alternative technology.

I mean, we have the technology we need to provide alternatives to fossil fuel,⁴⁷ but we haven't integrated them into the infrastructure. And as you know, it's one thing to have a technology, it's another to train a whole generation of people how to use it and how to integrate it into their businesses.

The scenarios that people discuss about peak oil are absolutely possible.

Either one is possible, that we could have a bust, or sort of the Orwellian process but we simply destroy the middle class.

JIM: You almost wonder if that's indeed the way we're going, because certainly, you know I can't imagine, Catherine, the average person on Main Street, let's say he picks up the newspaper in the morning and he's reading that a government report says there's no inflation.

Or he turns on the TV and he sees a news clip of Alan Greenspan talking about wonderful productivity, miracles going on with assets, and then the poor guy goes to work, pulls into maybe the filling station on the way to fill up his tank of gas, and then maybe on weekends goes to the grocery store or maybe he has to visit the doctor, and he's seeing his costs go up in a way that isn't described anywhere in the financial media.

Yeah, they may talk about rising gas prices, but I always here this word "benign" inflation. What does that mean?

CATHERINE: Well it's funny, one of the things that was wonderful when I first moved to Hardeman County (Tennessee), I was driving around with one of the local farmers

⁴⁶ A lyric comes to mind from a song I wrote years ago, subconsciously inspired, no doubt: "*If I found myself so rich/ that I could scratch most any itch/ And the poor were just a computer glitch/ Lord, would it be enough?*" see <http://www.petemccormack.com/music/enough.mp3>

⁴⁷ Speaking of "seasonal adjustments", one of the disasters of the fossil fuel economy may be that, due to its finite amount, it is diminishing on a linear scale—and life, contrary to much science and even the Abrahamic religions, is not necessarily linear. Fossil fuels, like apocalyptic religion, are an end-game philosophy, to quote Jeffrey Armstrong. The Developed World has a linear-focused ideology—both in terms of time and profit—and it imposes this ideology everywhere else. But where is it heading? It turns out sustainable living is by definition cyclic. Alternative technologies, being sustainable, may in time serve to "incline" humans towards the ongoing and unavoidable (though still denied) relationship between human nature and our environmental nature.

who was telling me essentially that they weren't efficient like the corporations.

And, you know, we got into it a little bit more and what I discovered is that [local farmers] didn't understand that they were having to compete on a basis where their revenues were greater than their overhead, and what they didn't realize was that local food franchise was laundering money and doing pump-and-dump stock market fraud⁴⁸, and so that they didn't have to generate revenue sufficient to cover their expenses.

And the problem wasn't that the small farmer was "out of it", or not clever, it was the small farmer was honest, and was up against competition that was essentially practicing organized crime.

And so I think part of the challenge is if you're sort of a regular guy in America, you're in the middle of economic warfare, and how do you see the game? How do you see the game clearly?

And how do you see the game in a way that you then have the opportunity to do something about it?

Cause there's no sense in seeing the game if it just depresses you to no end.

So how do you see the game, and then how do you organize?

It's funny, when I started to do speaking tours about the financial fraud in Washington, somebody said to me "Do you think there is a conspiracy?"

And I said, "Look, don't worry about if there is a conspiracy, you need to start one."

JIM: (Laughter)

CATHERINE: And the idea was, you know, we need to organize, if we're going to function in political markets and the political economy, and government is essentially going to be controlled by private players who are using that governmental apparatus to outfox us in the game of economic warfare, we need to organize to do the same.

So we need to see that we're in a game of spiritual and economic warfare, and organize accordingly.

So the average guy is going to have to figure out how he can, in fact, start, whether it's

⁴⁸ From the US Securities and Exchange Commission website: "Pump and dump schemes, also known as "hype and dump manipulation," involve the touting of a company's stock (typically microcap companies) through false and misleading statements to the marketplace. After pumping the stock, fraudsters make huge profits by selling their cheap stock into the market."

locally or network globally. **The pro-decentralization team, the honest guys, are going to have to start forming conspiracies to shift the resources back to us.**⁴⁹

JIM: Well, it seems like one way to do that, Catherine, would be—in a world that’s full of fiat currency⁵⁰ floating around—is to own something real and tangible, which is to own the gold and the silver.

CATHERINE: Absolutely. Absolutely. One of the great new vehicles in my life is I use Gold Money. I don’t know if you’ve used any of this Digital Gold? But it’s quite marvelous. Have you had James Turk⁵¹ on your show yet?

JIM: Yeah, we’ve had him, and James is coming back in the month of June, which is going to be devoted to gold and silver.

CATHERINE: Great. I’m a very satisfied Gold Money consumer. And I’m a great believer in the precious metals right now. We’ve certainly seen it manipulated down, and it’s certainly a manipulated market, but I feel very confident that the price of gold has quite a floor under it, and I think it’s going to go up quite a lot in the next couple of years...

You know something Jim, I’ve been stunned because, remember I spoke at the National Press Club with Murphy about 2 years ago? GATA did a great press conference, and C-SPAN covered it.

And I would never have believed that they could keep the manipulation going on this long... At the same time, I don’t think that they can use the governmental apparatus to finance this game much longer, and I think precious metals have a tremendous market following.

⁴⁹ A few great questions (and see Catherine’s website at www.solari.com): Where do you bank? Is the bank serving the community? Where do you shop? What food do you buy and from where? And given the effects of cattle-raising for meat and the mass of land required, nitrates in the water and so on from factory farms (although shockingly, by all accounts, unmentioned in Al Gore’s *The Inconvenient Truth*), and the brutality of factory farming on the economy and small farmers, against diversity, people and, of course, *the animals*, one could ask, what do you eat? Again, factory farming is deeply linear. Local farms are cyclic.

⁵⁰ According to Wikipedia: “In economics, **fiat currency** or **fiat money** is money backed by government demand for it as legal tender payment of legal liabilities, such as taxes. *It is often associated with paper money because legal liabilities are created and settled by documents which are usually paper.*”

Legal tender means, loosely, “currency” that cannot be legally refused in the paying off of a debt. Paper money has, of course, virtually no inherent value.

⁵¹ See James Turk, the founder of GoldMoney at www.goldmoney.com/en/commentary.php

And so there's a fundamental economic support for precious metals that you can count on. So that's an investment that I believe in, and I agree with you absolutely, and they can't do this forever...At some point, land has value and gold has value.⁵²

⁵² See Catherine's website and company Solari at www.solari.com and here Solari Investment Advisory Services at www.solariadvisors.com
See Where is the Money? (the 2.3 trillion etc) at www.wheristhemoney.org