

BUILDING WEALTH IN CHANGING TIMES



The Solari Report

MARCH 26, 2015

A hand holding a yellow pencil, poised to write on a pink piggy bank. The background is blurred, showing a person in a white shirt.

Planet Debt: Part 1

with Joseph Farrell



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C. AUSTIN FITTS: Well, ladies and gentlemen, welcome to Planet Debt with Dr. Joseph Farrell. I'm delighted to have him join me today. We had done a theme, Planet Equity, in the Wrap Up, and then of course everybody said, "How does that fit in with the debt and derivatives?"

I thought, "I don't want to have this conversation without being able to talk about the full financial system, not just the publicly disclosed one. So I asked Joseph if he would join me, and I'm really thrilled.

Joseph, welcome back to The Solari Report.

DR. JOSEPH FARRELL: Thanks for having me back, Catherine.

C. AUSTIN FITTS: Before we dive into debt and debt statistics, the first thing I wanted to just mention was I wanted to thank you for your help with the Annual Wrap Up because part of what inspired me was my frustration in talking with the attendees at the workshop in California about trying to dissuade them from the notion that the US dollar was about to collapse.

DR. JOSEPH FARRELL: Right.

C. AUSTIN FITTS: One of the things you said was something that turned into the money maps, "Why don't you give people a basic overview of the statistics?"

That's what ultimately produced that map showing all the different countries and how many aircraft carriers they had which I thought made the point beautifully, but we would never have come up with Money Maps if it hadn't been for you. You invented that and gave great input, so I want to thank you very much for that.

DR. JOSEPH FARRELL: My pleasure. It was a great Wrap Up. I kept it and



read through it a couple of times. It was nicely put together.

C. AUSTIN FITTS: Yes. It was a lot of work, but I really wanted to defeat some of the more simplistic scenarios that get promoted out there. I thought one of your most brilliant insights – and I keep talking about it on The Solari Report – was the 28 tracks.

Before we start, why don't you explain the 28 tracks for everyone?

DR. JOSEPH FARRELL: Well, I've made the observation that a culture is known by its music. If you look at America, other than a very small handful of composers – and I'm thinking of Leonard Bernstein, Samuel Barber, Aaron Copland, and people like that – we have not produced a really high musical culture. We've produced a lot of popular music that is quite good, but a lot of it that is quite bad.

If you listen to it, I live in a place where people drive down the street and they've got their boom boxes in their cars going. All you hear is this, "Boom, boom, boom." It's this jungle beat drumbeat.

The music is very simple; it's very simplistic. It's competitive, and there's no real intellectual effort to take an idea and permute it. Basically you're listening to melody propped up by chords with a background of the jungle drumbeat. It's very mind-numbing.

You compare that to somebody like Mozart or Carl Philipp Emanuel Bach or Johann Sebastian Bach, and I made the observation that the Magnificat – the opening chorus of JS Bach's Magnificat – if you look at the score, it has no less than 28 lines of music, and they are all moving more or less independently of each other. Bach is considered a busy composer, but they are more or less moving independent of each other. In other words, you have 28 tracks if you put them into a recording studio.

C. AUSTIN FITTS: Right

DR. JOSEPH FARRELL: Not only are they moving independently, but each



line of music is doing its own little permutation of the basic idea. On top of all of this, it makes perfect harmonic sense. It's a different kind of music, and it really speaks to the fact that we have a dumbed down culture. That was really my point.

C. AUSTIN FITTS: Ever since you brought it up, I see it everywhere. When you look at analysis of the financial system, what you often hear is an effort to describe what is happening just based on the overt system. The only way, of course, that you can do that is to put it into one very simplistic track and pretend that the other 27 tracks don't exist – which, of course, doesn't work.

“When you look at analysis of the financial system, what you often hear is an effort to describe what is happening just based on the overt system.”

DR. JOSEPH FARRELL: Right.

C. AUSTIN FITTS: If you look at the negotiations over in Europe, you can see the Europeans tearing out their hair because they're functioning on 28 tracks and the Americans are trying to function on one track – which may be fine if you are surrounded by two oceans. But if you're living in the middle of reality, you can't afford that kind of simplification.

I think that one of the things I said to you was, “That is a topic that really needs to get into all 28 tracks, and of course we need to go deeply into the covert side.” That is why I would much prefer to have you join me for this conversation than some of the financial practitioners who hold themselves as being experts on the debt system.

I want to start with your *Secret Space Program* presentation. I should just note that the sponsors have now put the presentations up on the blog and on the web for free. You can access them through your website and we'll have them up tomorrow.

You did two presentations. Maybe you could describe those two presentations and just give us a synopsis. I think we need to start with a hidden system of finance, and I think you did a brilliant job at the



conference at presenting that.

DR. JOSEPH FARRELL: Actually, it's interesting that you mention that presentation because neither you nor I coordinated what we were going to talk about with each other. When you got up Sunday morning and then started your talk – and I hope people will watch both presentations back to back because they are highly complementary to each other.

C. AUSTIN FITTS: Yes, they are.

DR. JOSEPH FARRELL: What you did is you outlined a pie graph of four quadrants of equity and debt and so on and so forth, but the fourth quadrant had a big question mark in it. That's really what we're dealing with in what I'm calling the 'hidden system of finance'.

What I did in that first presentation was to show people why the system evolved. In a nutshell, it evolved because the post-World War II American national security establishment was basically confronted with three strategic problems. The first problem they were confronted with was it became very clear to that establishment after the war that there were Nazis – believe it or not – somewhere in the world who were continuing with their secret research projects and doing so with more or less impunity.

The second problem that they had was obviously the communist bloc, the Soviet Union.

The third problem they had, which probably was the most significant of them all, is they had a UFO problem. When I say that, what I illustrated in the second talk was that these UFOs were buzzing American defense installations, turning our ICBMs on and off. They did this in the Soviet Union as well, and the Soviet Union actually began the countdown for the launch. That was during the Andropov era as a matter of fact.

What this all adds up to is that they were confronted with a massive three-fold strategic problem and on a crash basis they had to develop technologies that would allow them to address all three threats at the



same time, and over the long term develop technologies that would emulate the performance characteristics of UFOs.

When you say that, you're immediately put into the financial picture because the finance for that kind of project is going to require probably decades of financing. It's going to run not only into the billions, but probably into the trillions of dollars. So what you're looking at – as I put it in the talk – was this mega-Manhattan Project on steroids. You couldn't just go out and announce to people, "Well, we've got a UFO problem. They're shutting our ICBMs off, and we want to tax everybody to death so that we can create flying saucers and show parody with whoever is out there doing all of this."

So they had to put into place a hidden system of finance. This is where it begins to get very interesting because in 1947 President Truman took the decision to recover all of the Japanese loot that had been plundered from China and Southeast Asia and Indonesia and so on and keep it a state secret. He kept all of that Japanese plunder that America had recovered a state secret and used it as a covert operations slush fund not only to combat communism, but – in my opinion – to begin the funding for these covert research projects.

I want people to understand what I'm really saying here. You talked in your presentation a great deal about the black budget and its enormous effect – and you said this many, many times in other presentations – on the federal budget, on being the real motivation behind the federal budget and the whole budgeting process.

What I'm talking about is a system that is even deeper and even more hidden than the black budget. In other words, it's a system that would require off-the-books financing. It would require the participation of the major prime banks in the West to keep all of this access loot in kind of a secret reserve.

That led me to make two more points, and I think these are probably germane to the discussion tonight as well. That was first of all, once you create a secret reserve of that nature, what it enables you to do is create a



vast amount of liquidity and leverage. You can take that reserve and rehypothecate it over and over and over because it's secret. Nobody really knows how much.

C. AUSTIN FITTS: How many times it's collateralized something, right!

DR. JOSEPH FARRELL: Exactly! And the other thing that happened because of this – and I'm almost certain that this happened, although the evidence for it is, as you can imagine, rather sketchy. Since so much of that excess loot is in the form of bullion, and particularly in the Japanese case, bullion that had been plundered from Asia – which we really had up to that point no good records of just how much was there in China and how much was there in Indochina and Burma where the Japanese armies marched.

The other thing that I think happened as a result of this, Catherine, is that the amount of Bullion that was recovered was kept deliberately secret. What this means for all the gold bugs and silver bugs out there is that the figures and guestimates of the amounts of bullion in the world are probably very deliberately badly obfuscated.

C. AUSTIN FITTS: Right.

DR. JOSEPH FARRELL: I've mentioned this a couple of times before on some of your other reports and interviews. I think it is possible that you could even be looking at figures of bullion amounts that are off perhaps as much as an order of magnitude. Once you've said that, this allows you tremendous ability to manipulate bullion markets, to manipulate currency and foreign exchange. There's just so much you can do once you've set up a system like this.

C. AUSTIN FITTS: I thought one of the most powerful parts of the first presentation you gave was what I described as the legal infrastructure that got set up to allow government appropriated money to be clawed back and used for the black budget, but then how that was levered with the Exchange Stabilization Fund.



Remember the New York fed member banks were set up not just to own and control the New York fed, but the New York fed was the depository for the US government. So they control all the government accounts. Remember, that's where a lot of the laundering can happen in secret.

“They control all the government accounts. Remember, that's where a lot of the laundering can happen in secret.”

Then they act as agent for the New York fed on the Exchange Stabilization Fund which gives them broad powers to intervene in the global securities and commodities and currency markets, leveraging the black budget money as well as this hidden financial system. That combination together puts the intelligence agencies working through the banks as their bureaucracies in the position of the most powerful banker in the world.

DR. JOSEPH FARRELL: Absolutely.

C. AUSTIN FITTS: When you said that, it was like bells went off. I was like, “Oh my goodness!” It was great to have all that machinery and different people laying out the different aspects of the machinery. Then you see it all together and you realize, “Holy cow!” My theory is the financial coup during the 1990's and into the bailouts was that hidden system with the intelligence agencies and private parties as bankers punching through and asserting control of the overt financial system.

Finally the bifurcation ended and they just took over.

DR. JOSEPH FARRELL: I totally agree. I think you're absolutely correct. You've remarked many times that you see this as you're driving around the country. Ever since you made that remark I've been trying to keep my eyes open to spot it myself.

Once you start looking at it, you can see this happening. It's tremendous. You're quite right.

I think what Truman did when he took that decision in 1947 is exactly



as you say. He put the intelligence agencies directly into the banking business.

C. AUSTIN FITTS: Right.

DR. JOSEPH FARRELL: Quite honestly I think that we're seeing some of the fallout from this with all of these mysterious banker deaths and suicides and so on. I think we're seeing some of the fallout of that because in most cases that I've looked at with some of these bankers, most of them appear to be connected at some point with review of day to day operations, balancing ledgers, looking at accounts, looking at money flow.

In other words, they are in day to day contact with data flows that might indicate to them that there is something else going on here, and it's not entirely coming from within whatever financial institution they happen to be working for.

It's a huge, huge system that we're looking at, and I just don't see how you can make any financial sense of what's going on in the world without taking all of this into account.

C. AUSTIN FITTS: One of my struggles throughout my career is you have an entire world of very bright, very ambitious financial people – whether in Wall Street or in the banks or throughout the financial system. They literally have been trained to stay only within the parameters of the overt world and the overt explanation.

I can give you the perfect example of that. AIG was the firm which, in my research, showed me – and this was in the 1990's – was basically running a lot of the risk management on all the black budget and covert operations.

DR. JOSEPH FARRELL: Holy cow!

C. AUSTIN FITTS: What would happen, particularly in the financial fraud, was you'd have a mess or a blow-up, and then you'd put a reserve up



with AIG. They would be the error and omissions insurance, and they would manage the reserve for managing the litigation and the mess on each different situation.

If you look at what was in their files, these guys – in terms of criminal liabilities – were managing files with galactic implications.

DR. JOSEPH FARRELL: Oh my!

C. AUSTIN FITTS: So when you get to the bailouts, here's Hank Paulson, former chairman of Goldman Sachs. I could have told Hank Paulson in a second that he couldn't let AIG go down because if you let AIG go down, a lot of different people get a look at those files, and that is never going to happen. You can't let AIG go down until you flip the whole model.

There was one guy who made a very good case that AIG was the one who traded the Exchange Stabilization Fund to finance 9/11, so they were doing some of the big insider trading. I don't know if that's true or not, but his evidence looked very interesting. It wouldn't surprise me in the least because that's how you finance an operation like that.

But I could have told Hank Paulson that there is no way that you can let AIG go down. The fact that he didn't know that shows you that somebody can get to the head of Goldman Sachs, be running operations involving massive amounts of securities and mortgage and treasury fraud, and not really see the thing whole.

DR. JOSEPH FARRELL: Yes, and let's extend that model a bit. If you think about what you've just said, the implications are really that the bailouts were about – not just AIG but across the board – protecting that hidden system of finance and keeping those files from the public eye because if that had been exposed...

C. AUSTIN FITTS: I think it was more than that. If you look at how they engineered the housing bubble as part of the strong dollar and the manipulation of the gold market, they clearly made moves to get



everything out and cleaned up two years before they took it down.

When they took it down, it was engineered down. Whatever that crash was, they had pumped it and they engineered the dump. They were very careful to settle certain litigation and do certain things and do it well enough ahead so that when you-know-what hit the fan there would be two or three years of the statute of limitations on different things that would be up for the trail for the money to be cold.

Whatever that crash was, that was a plan from everything I can see.

DR. JOSEPH FARRELL: I totally agree. I totally agree. It could not have been anything but.

I pointed out in *Babylon's Banksters* that the whole formula behind the credit default swaps and derivatives that was invented by that Chinese banker, if you look at that formula very carefully and consider the implications of what it did and what it allowed, you could basically engineer precisely such a takedown. I mean, it's crystal clear.

C. AUSTIN FITTS: Right, and what's interesting is if you look at how derivatives work, they literally lock you into a future. If anybody tries to veer away from the future, you say, "Oh, no. You can't do that because it will blow up all the derivatives."

DR. JOSEPH FARRELL: Exactly.

C. AUSTIN FITTS: It's the ultimate control mechanism.

The point I wanted to get to was how frustrating it is if you do what I do to listen to an enormous amount of both corporate media and alternative media that is financial analysis that doesn't take into account the system of finance, the black budget, the realities that Truman was dealing with and we're still dealing with – whatever they are.

In a lot of financial circles, if I try to bring that up I am just completely shouted down and hooted out of the room.



DR. JOSEPH FARRELL: Yes.

C. AUSTIN FITTS: It's sort of like, "Real men don't bring up the black budget," kind of stuff. What has happened – and I think this is just so important from my standpoint – is day after day after day I see people who have been harmed by financial professionals and advisors who won't look at this. They don't know what's really going on so they come up with very bizarre theories of what is happening and why. They're the ones who claim, "The dollar is going to collapse," and all that stuff.

"They don't know what's really going on so they come up with very bizarre theories of what is happening and why."

They have no concept of what holds the dollar up or what the real game is, and it's very, very frustrating for me. That is why I'm so glad and so grateful to you and Richard Dolan and some other people who are willing to have these conversations and look at an integrated picture of the world.

My goal today with these conversations is to try to build a real picture of the real financial system so that we can try to navigate it as best we can.

Let me dive into the role of governance because whenever anybody comes to me and says, "Well, how should we reengineer the financial system?" my attitude is, "Wait a minute. That's just a part of the governance system. If you don't understand what the governance system is, who's in control and where they're going and why they're going there? You can't do anything with a financial system!"

DR. JOSEPH FARRELL: That's right.

C. AUSTIN FITTS: So maybe you could just touch on the role of governance and how it might relate to finance.

DR. JOSEPH FARRELL: Well, the problem as I see it is if you have a hidden system of finance that is at the behest of the national security community – whatever you wish to call it – you really have a system where real



governance is free, more or less. I think you yourself put it this way many times. How do we deal with a system of governance where they can see everything that you're doing, but you can't see very much of what they're doing?

C. AUSTIN FITTS: Right.

DR. JOSEPH FARRELL: The real governance system if all of this be true lies in the very few hidden players with access to the technologies that can manipulate markets and read trades and make predictions based on mass movements of capital and so on and so forth.

If that be true, then the public mechanisms that we think of when we say the word governance are more or less – and I hate to be blunt – irrelevant.

C. AUSTIN FITTS: Right.

DR. JOSEPH FARRELL: You've actually got a two-track system here. You've got the public thing that's kind of for show, and then you've got the real thing that is more or less hidden in the bowels of the NSA, the CIA, and most likely other Western intelligence agencies that are all plugged into this.

The real problem, if we're going to get to the bottom of the financial system, we also have to understand that what that system is made to serve is a covert regime that was set up, again, after World War II to deal with three specific problems. The three problems, again, are that there was a group of independent Nazis out there doing something with their research projects, the communist bloc, which has collapsed more or less, and then this long-term UFO problem.

Here's the other problem with this system of governance. You have this whole thing being set up to fund and finance secret research into hidden technologies which, given the amount of money that we've been talking about over several decades, means that this group also has control of technologies that would probably boggle the imagination.



C. AUSTIN FITTS: Right.

DR. JOSEPH FARRELL: So you're dealing with a whole host of things here. What intrigues me is I'm getting the distinct impression that they are very slowly and deliberately leaking aspects of this technology out into the popular stream of consciousness. In my second talk I pointed out two significant things, and these two things alone should make your listeners give pause and reflect on the financial implications of what I'm about to say.

The first thing is that NASA has a scientist by the name of Dr. Harold 'Sonny' White who has pointed out that the papers that were published in *The American Journal of Physics* in the late 1990s by a Mexican physicist by the name of Miguel Alcubierre who wrote a paper showing that warp drive was possible, but possible only if you had the mass energy conversion of the planet Jupiter.

In other words, it was not feasible within the near term span of technological development that could be predicted for humanity.

Dr. White came along and did all the equations and found that there were certain problems with Alcubierre's calculations, and that in fact you could achieve the same thing with much lower mass energy conversion.

In other words, what he was really saying is that it is just within the realm of predicted feasibility. So he's heading up a NASA drive to perform the proof of concept experiments to demonstrate that this might be feasible.

Lo and behold, there is a second thing that happened right around the same time, and that was the Defense Advanced Research Projects Agency (DARPA) came out last year – and I blogged about this on my website – and made a kind of John F. Kennedy goal to have the United States be warp-capable in a century, in 100 years.

What that means, folks, quite bluntly is that if that were to be achieved, human exploration – manned human expeditions throughout the solar



system – would be like getting on a Greyhound bus and travelling across the country or getting on an airliner and travelling from this continent to another. It would be an everyday occurrence.

C. AUSTIN FITTS: Right.

DR. JOSEPH FARRELL: In other words, they're preparing us for huge, sweeping changes in the technology that drives our culture, and this is going to have a huge impact on finance. I couldn't even begin to describe the huge impact that it's going to have.

C. AUSTIN FITTS: I can!

DR. JOSEPH FARRELL: Yes, you've spelled them out many times yourself.

C. AUSTIN FITTS: When you're going through change that is accelerating and feels this chaotic, it's important to have a vision of where you're going. I think one of the greatest drains on productivity is the absence of disclosure because then people can't see where we're going. There's no logic to it, and that makes you incoherent. It's better, of course, to understand reality than to not.

What I tried to do in the Wrap Up is when you understand what the thinking would be behind leadership that is trying to build a financial system on Planet Earth, which is capable of being a multiple-planet civilization system. So they are trying to come up with a financial system that can function on multiple planets or interact with financial systems on other planets.

DR. JOSEPH FARRELL: Yes.

C. AUSTIN FITTS: They are building towards an interplanetary system, and a lot of what they're doing that looks particularly insane is the rush to get there quickly. Part of that is rebalancing the global economy, and if you look at what you need to do to get the transaction costs down to get a payment system going globally and you're pushing it that hard and that fast in the Western world, it looks kind of insane unless you look at it



from that point of view.

DR. JOSEPH FARRELL: I totally agree. You and I have talked before about this. You sent me the outline for our talk tonight, and one of the points that you made in that was: Where did all that money through the bailouts and the quantitative easing go?

The predictions from the classical-minded finance advisors and economists was, “Well, it will lead inevitably to hyperinflation,” which we haven’t seen yet.

“The predictions from the classical-minded finance advisors and economists was, “Well, it will lead inevitably to hyperinflation,” which we haven’t seen yet.”

C. AUSTIN FITTS: Yet!

DR. JOSEPH FARRELL: This is my big pet peeve! Or it’s going to lead to the collapse of the dollar and so on and so forth. We’ve been hearing this for so long, and yet it hasn’t happened. But, they do raise a good question: Where in the name of sense is that money going? It’s like an electrical circuit.

C. AUSTIN FITTS: Right, and they had issued a huge amount of fraudulent paper, and I thought they were going to use the bailouts to clean up the fraudulent paper.

I’m not saying they didn’t clean out some, but they clearly haven’t cleaned up all in the leveraging. That’s part of what we’re going to talk about. The leveraging just keeps going on.

DR. JOSEPH FARRELL: Yes!

C. AUSTIN FITTS: You know, I thought they only stole \$40 trillion. The numbers are getting bigger and bigger.

DR. JOSEPH FARRELL: Yes.

C. AUSTIN FITTS: So that’s the question. Where in the world is all this going? In fact, the thing that makes the secrecy so painful is not only is all the



money in organizing the whole society to produce this money, which is disappearing, but then you have to reverse engineer back the technology, pretending that all these clever entrepreneurs with Asperger's invented it out of their back pocket – which, of course, is ridiculous.

DR. JOSEPH FARRELL: Right, but the money has to be going somewhere. With that and the fact that there is all of this – I can't call it anything else other than 'juggling' of the numbers of gold amounts in the world. I just read an article, Catherine, where China is buying more gold than is being mined in the world on a yearly basis.

C. AUSTIN FITTS: Right.

DR. JOSEPH FARRELL: In other words, what are they doing? Are they just buying paper?

C. AUSTIN FITTS: Well, you know they are now the number one miner in the world as well.

DR. JOSEPH FARRELL: Yes!

C. AUSTIN FITTS: And do we really believe that their numbers are honest of what they're pulling out of the ground?

DR. JOSEPH FARRELL: Exactly. That's the problem here. As I said, the amounts of bullion that were being told exist I think are badly obfuscated and that they've been badly obfuscated because of this hidden system's finance over the years.

Where is all of this going? I like to use the analogy – and I've said it before – of the electrical circuit. You put so much juice in at one end, and it's got to come out at the load end, and yet it's not coming out at the load end. We're not seeing a manifestation of it in any way, shape, or form.

I'm willing to entertain the idea that in some form or fashion the money may be going off world somehow. There is no other way for me to



rationalize what is going on.

C. AUSTIN FITTS: You know, Richard Dolan is joining us on The Solari Report – or just joined us. We did a Solari Report on underground facilities. If you look at the amount of money I would guess that we've put into underground facilities globally over the last 20 years, it's enormous. If you look at how much money we've put into space and space travel, that is enormous. My bet is they are building an endowment so that they can essentially run what they need to run on a privatized basis. So that's enormous, but there's more than that.

I used to always ask the question, "Is the moon a Death Star, and are we paying a dividend off-planet?"

DR. JOSEPH FARRELL: Exactly.

C. AUSTIN FITTS: Yes, exactly.

DR. JOSEPH FARRELL: It raises all of these very, very thorny cosmological and philosophical and financial questions, but the bottom line – to get back to what your initial question was – you cannot make sense of the financial world on just an analysis of the overt system because that analysis is what's producing all of these predictions of the imminent collapse of the dollar or imminent hyperinflation or in some other models a deflationary period.

C. AUSTIN FITTS: Right.

DR. JOSEPH FARRELL: You can't make accurate predictions because you're limiting yourself not even to one half of the picture. I'd say you're limiting yourself to a quarter or less of the picture. That is the problem.

C. AUSTIN FITTS: Right. It's probably a little bit more than a quarter, but certainly the covert side is in control and has become so big that it has overwhelmed the host.

DR. JOSEPH FARRELL: Yes.



C. AUSTIN FITTS: That is the biggest part of the play, and it's certainly the most powerful part of the play. If you're going to understand the economy, you're going to have to look at it through that paradigm and framework.

DR. JOSEPH FARRELL: Let me make an observation on that whole thing and about something that you said earlier – that you have seen people's finances be drastically hit by poor financial advice because it hasn't been based on an adequate perception of the hugeness of this hidden system of finance that we've been talking about.

I think it would be helpful if somehow we could identify specifically in individual cases how that hidden system impacts people in that way through a financial analysis that doesn't take into consideration that hidden system. I don't think that this has been done yet.

In other words, we've been talking in very general terms. I think it's time that all of us who are looking at this whole picture have to start thinking in terms of, "Let's get down to specifics. Let's see how this works on a local and regional level."

C. AUSTIN FITTS: Right. I agree.

DR. JOSEPH FARRELL: Let's lay out the models.

C. AUSTIN FITTS: That's why last year I did the series of The Solari Report with you and the Equity Overview and the Wrap Ups on what is Global 2.0, what is Global 3.0, where is the shift coming, and where are the areas that money is coming out of, and where are the areas that money is going into?

In terms of viewing the equity markets, that has helped me tremendously because you really can see where the money is leaving and where it's going. But I agree. We need to drill down much more into the community, the place, the household, and see it much more clearly.

That's one of the reasons why my next step is looking at the debt because



so much of what happens in real assets – whether it’s real estate or precious metals or equities – is how we are going to manage the debt and derivatives, and how the currency wars are going to play out as part of that.

Let me just turn and dive into an introduction to the debt and the fundamentals because I like to keep it simple. To me, debt is just IOUs in the many forms that they are. It could be household debt which could be a mortgage or a consumer loan or an auto loan, a student loan, community debt – which could be municipal bonds – or it could be sovereign government debt. In our country it’s the treasuries, but all of the countries around the world have sovereign debt. It could be corporate debt of various different kinds of how corporations borrow both bank debt and in the securities markets and sort-of from the non-bank and the shadow players.

“In our country it’s the treasuries, but all of the countries around the world have sovereign debt.”

There are all different kinds of debt, but the overriding principal about debt that I focus on is the fact that debt puts people out of alignment. In other words, if you owe me money, I don’t care if your deal works or not so long as I get paid. In fact, in a lot of debt situations I can trip you up and make more money on your failure. We engineered the laws in student loans to make more money from students not being able to pay than to pay.

Debt can be a very dirty game, but it can also be a way for a lot of players to own things from behind the scenes.

DR. JOSEPH FARRELL: Yes.

C. AUSTIN FITTS: So I can take dirty money, park it with an LBO firm. They run around and buy companies, but I’m really pulling the strings from behind the scenes, particularly if I have the power to kill with impunity because then I can enforce.



One of the great insights for me about what debt really is in our economy, I wanted to tell this story. I don't know if you've heard this story; I've told it many times on The Solari Report.

I was sitting with a group of women here in Tennessee, and everybody knew each other. Some had been friends for decades. I got everybody talking about their money. It turned out that one had a CD at a local bank, and maybe at that time they were getting 2-3%. Another had their brokerage account invested in stock in a bank, and I think it was Citibank. It was a big New York bank. They figured they were getting about 5%, and of course that was before 2009 when they lost almost everything.

Another person was borrowing money from that same bank and paying 23% to finance their business.

DR. JOSEPH FARRELL: Good grief!

C. AUSTIN FITTS: I thought, "Wait a minute. These two people are getting on average 4% and one of their closest friends is borrowing back. They're giving their money to this bank at 4%, and the bank is loaning it back to their best friend at 23%."

I said, "Surely that's a 2000-basis arbitrage opportunity." Why isn't everybody talking and just cutting them out? There are all these different ways. They could go to a local bank, make a deal, facilitate all the things, and they could all make more money, or one could pay 12% and the others would get 8% and the bank would get a fee, and everybody would make that money. But no one was talking about their money, and this bank from 1,000 miles away was playing them all. It was astonishing to me.

That's when I realized that this is more than just a financial system; this is a control system. This is a harvesting system. This is really, really bad.

So we're going to talk about debt and all of its context, but particularly the growth of debt since the bailout happened. I'm not going to focus



tonight on derivatives, but one of the things I did want to mention is derivatives is very much part of the debt picture, but I would like to point out something that most people don't realize. By far and away the largest percentage of the derivatives is interest rate swaps. Since 1980 we've been in a long-term bull market for bonds where interest rates have come down, down, down and the price of bonds has gone up, up, up. The amount of paper in the non-bond market has gotten more and more and more to the point where it's clearly not sustainable.

Now that we've reached this point where we think interest rates can't go any lower, the question is: What is going to happen?

Did you watch the Bill Gross meltdown this year?

DR. JOSEPH FARRELL: No, I did not.

C. AUSTIN FITTS: Bill Gross is the manager of the largest bond fund. We're coming to the end of the bull market. He is sitting on the largest pile of bonds in the world, and he literally has a meltdown and quits and leaves because if interest rates turn and go back up, the last place he wants to be sitting is on the top.

DR. JOSEPH FARRELL: Exactly.

C. AUSTIN FITTS: Right, because that is the question: If interest rates should ever turn, where is all this paper going to go?

There is one other thing that I wanted to point out to you just as background because the history of debt is very much a history of war.

DR. JOSEPH FARRELL: Yes.

C. AUSTIN FITTS: What the European rulers discovered – and this was at the time of the creation of first you had the banks, but then you developed the bond market – was as long as you could borrow money to finance a war, you could get the population to go along with having a war because they didn't have to pay for it until after it was over.



DR. JOSEPH FARRELL: Right.

C. AUSTIN FITTS: When I first seriously sat down and read Sun Tzu, I said, “Oh, the Chinese didn’t have a bond market.” Here you have a general or a series of generals talking about military strategy that is basically assuming equity financing. He’s got a ‘pay as you go’ system. He can’t go to the bond market and build popular support without getting them to realize what they’re going to have to pay for it.

I think one of the reasons we’ve been able to accumulate this much debt is it has very much been part of what I call the ‘central banking warfare model’ and debt has been the thing that made war explode, and war has been the thing that allowed debt to explode.

DR. JOSEPH FARRELL: Absolutely.

C. AUSTIN FITTS: So let’s turn to trends in debt since 2007. We know – and I’m just going to talk very generally about it – there’s a great study in terms of statistics by Mackenzie that Joseph was nice enough to read that we’re going to have linked in the blogpost. It has a wealth of statistics and charts on the trends and debt. I’m going to refer you to that.

We know coming into 2007 we had an extraordinary amount of debt in the maturing economies. The maturing economies had been increasing debt steadily, but the emerging markets were very low on debt and very under-leveraged, which makes sense because they’re growing faster and the last thing that they want to do is carry a lot of debt.

What happened coming into 2007 was I believe there was tremendous amounts of fraudulent debt issued, certainly by the Americans. I always believed, Joseph, that the black budget guys had done a whole bunch of fraud, and then we have the bailouts, and then they clean up the fraud. That was kind of what happened in 1989 at the last housing bubble bust.

In fact, that hasn’t happened. It looks to me like there is still a fair amount of fraud, and they continue to just lever, lever, lever. Now what



we've seen since 2007 is the emerging markets come up more in terms of debt.

There is a great chart that I'm looking at in the Mackenzie study, and it shows the debt to GDP ratio. This is for all sectors. This is government, corporate, household, and the financial sector. Of course, number one is Japan. It ranges down, and we have still above the 100% line essentially 39 countries, which is extraordinary, that have a debt to GDP ratio.

Let me just give you some numbers. Japan, Ireland, Singapore, Portugal, Belgium, Netherlands, Greece, Spain, Denmark, and Sweden are the top ten. The United States is 16 with 233. Of course, that doesn't include all the stuff off balance sheets, not reported.

I'll never forget. I just have to tell this story. Secretary Paul O'Neill announcing that he'd hired a bunch of guys and they came up with a study that collected up all the liabilities in the United States. I said, "I don't think that's a very good idea."

He put it up on the website. Two days later it's down and he is leaving the administration.

“He put it up on the website. Two days later it's down and he is leaving the administration.”

DR. JOSEPH FARRELL: Yes.

C. AUSTIN FITTS: So if he'd gotten away with that, I suspect the number would be more than 233.

DR. JOSEPH FARRELL: Oh, yes.

C. AUSTIN FITTS: Interestingly enough, if you look at who has a very low-to-debt ratio, one of the lowest – of course – is our friends in Russia who as a result of what happened in the 1990's have never again levered up. In one sense they come into this situation very, very strong. The ones who succeeded in achieving a very low one, particularly un-levering or de-levering during this period is Israel. They are very low.



So we've seen this continuing explosion. The one thing that I wanted to point out is within the numbers there are some countries that are financial centers – Singapore, the Netherlands. Because they are financial centers, they have a tendency to balloon their balance sheets. If you look at their balance sheets and the real assets they have behind it, I think their situation is much stronger than it might indicate.

For example, one of my favorites is Norway at number 14. They have a 244 debt to GDP ratio. If you look at what they've got in their sovereign wealth funds, you know they are to me the most financially sound country in the world – they and Switzerland.

The numbers aren't perfect; you've got to look at unique situations. Needless to say, it's tremendous. One of the things I hadn't realized until I read this was from 2007 on one of the ways that we kept global growth going was China levered up tremendously during this period.

DR. JOSEPH FARRELL: Yes.

C. AUSTIN FITTS: China now has 217. That was at the second quarter of 2014. I'm sure it's still growing. They estimate that China's contribution during this period made up 35% of global growth.

So we've basically kept the global growth going by continuing the leveraging, dramatically increasing it in the emerging markets, particularly on China. And that is not a pretty picture now that we have a global slowdown.

DR. JOSEPH FARRELL: That's right. That's right.

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