Economic Crisis: The U.S. Political Leadership Has Failed

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As the 2007 economic collapse picks up speed, it's time to take a hard look at the performance of the U.S. national political leadership in meeting some of their most fundamental responsibilities. It's time to face the fact of serious failure over the last quarter century.

During this time, the leaders of both political parties and of major institutions such as the Federal Reserve have presided over the abandonment of some of the most solemn obligations of constitutional government. They have done this in order to embrace an agenda favorable mainly to the financial, corporate, and government elites.

On January 20, 1981, a full generation ago, President Ronald Reagan said in his first inaugural address, "Government is not a solution to our problem, government is the problem."

Reagan was both right and wrong.

The problem the U.S. was facing then was the collapse of the nation's manufacturing base through a recession that happened when the Federal Reserve raised interest rates to over the twenty percent level. It did so almost a decade after President Richard Nixon removed the gold peg for the dollar, leading to the inflation of the 1970s when our currency flooded world markets through the oil trade.

Reagan's statement that "government is the problem" was correct to the extent that failed financial policies and the out-of-control actions of a Federal Reserve beholden to private financial interests combined in the worse economic downturn since the Great Depression to wreck the world's greatest industrial powerhouse.

But he was wrong in thinking that the solution was deregulation of the economy, particularly deregulation of financial and investment institutions which took place during his two terms. The result was enormous growth in the power and influence of Wall Street and the big banks over the rest of the economy. The era of leveraged mergers, acquisitions, and buyouts was the predecessor of the disaster of today with the unfolding fiasco of equity, hedge, and derivative funds in the process of collapse.

After Reagan came President George H.W. Bush. By the end of his term, the loss of manufacturing jobs had produced another recession. Within a couple of years of Bill Clinton's election in 1992, action by Secretary of the Treasury Robert Rubin to strengthen the dollar attracted enough foreign investment to create the dot.com bubble.

Clinton then cut the federal budget enough by reducing federal employment that he was able to achieve a budget surplus. This lessened the drag on the economy from the national debt which Reagan had left behind from his tax cuts and trillion dollar military build-up. But the over-leveraged dot.com bubble burst with the stock market collapse of 2000, leaving us in recession again.

Enter President George W. Bush. Despite the "achievement" of Federal Reserve Chairman Alan Greenspan in creating another bubble—the housing one—big enough to float the U.S. economy for four consecutive years—2002 to 2005—the economic fundamentals today are horrendous. We are living in an economy that has begun to crash, with the Federal Reserve, the Treasury Department, and Congress cobbling together bail-outs of various descriptions which they hope will right what is obviously a sinking ship.

We can only hope they will succeed to some extent, because it would be heartless to wish disaster on the ones who suffer the most from the consequences of the greed and stupidity of people in power—namely the ordinary people who work for a living and who honestly try to raise their families and hold to a decent standard of living. But life is becoming very hard for the vast majority of Americans who have been bearing the brunt of our failed economic and monetary polices of the last three decades.

Our political leadership has let us down in the following critical respects:

- Going back to the 1930s, President Franklin D. Roosevelt established an economic system—the New Deal—that pulled the U.S. out of the Great Depression, enabled us to fight World War II, and created the world's greatest industrial democracy. He did this largely through programs that, taken together, were based on the principle of low-cost credit treated as a public utility. This persisted into the 1960s and 70s, when it was replaced with the system of monetarism, whereby the economy is now regulated by the Federal Reserve through raising and lowering of interest rates. This system, with interest rates much higher, on average, than during previous decades, has been catastrophic for the U.S. economy. It has enriched the financial industry at the expense of everyone else through what can only be called institutionalized usury. Under this system, every period of economic growth since 1983 has been a bank-created bubble, while the general population has become steadily poorer. The Federal Reserve claims that it raises interest rates to reduce inflation, when in fact higher interest rates cause inflation by making every transaction more expensive. Under the reign of monetarism, the U.S. dollar has lost over eighty percent of its value. In fact, government policies are designed to generate inflation, because this makes it cheaper to pay down the national debt and while augmenting tax revenues.
- It has been well-documented that since the early 1980s the federal government has acquiesced in every respect to economic policies that have resulted in the steady erosion of our manufacturing base, elimination of millions of skilled industrial jobs, creation of a crushing burden of household and individual debt, crumbling of our physical infrastructure, privatization or elimination of public services, failure to meet such crises as the Katrina disaster, export of jobs to low-cost foreign labor markets, unfair distribution of taxation, and toleration of the influx of millions of illegal aliens who keep wages low within the domestic economy.
- Since the Clinton administration, the government has misled the public through

distortion of economic indicators. Calculations of the GDP are too high and exaggerate the growth of the economy. The consumer price index on which government cost-of-living adjustments are based has eliminated such items as food, fuel, and home buying. Actual inflation is running at a rate of three times what the government estimates; i.e. closer to ten percent than the three percent which is claimed. Regarding the money supply, the Federal Reserve has stopped reporting one of the most important indicators, which is M3—the amount of money available to the largest institutional investors. Data which are available today show without question that the producing economy—that is, the everyday world of people who work for a living—has been in recession for over a year. Meanwhile, the financial economy that lives off the producers as a parasite continues to float on rollovers of mega-loans originating with the Federal Reserve and its policy of allowing banks to capitalize the massive amounts of repurchase agreements generated by electronic funds transfer.

- Insufficient attention has been paid to the disastrous effects of NAFTA in destroying family farming in the U.S., Canada, and Mexico. On top of this has been the diversion of agricultural products into bio-fuel production with the attendant inflationary effects. Meanwhile, our food supply has been taken over by agribusiness and the financial markets at the same time that two-thirds of the nation has been in the grip of long-term drought. The high interest rates of the monetarist regime have worked to make farming at the local level impossible and have destroyed the production of entire regions, such as the once-great Idaho potato industry. Unless local farming can be revived, there is a real-danger of massive food shortages breaking out under a prolonged economic crisis.
- Finally, there are our failed foreign and military policies. After the U.S. lost the Vietnam War, we had reason to believe that our political leaders might have learned a lesson about military adventures abroad, particularly land wars on the continent of Asia. Instead, starting in earnest with the “Reagan doctrine” of endless proxy conflicts on every continent, the U.S. has embarked on a policy of world military conquest. The Iraq War, the planned permanent occupation of that country, and the designs being formulated against Iran, are part of a policy of military control of the Middle East that has been ongoing for almost twenty years. The dual objectives of this policy are to control Middle Eastern oil and advance the interests of Israel. Talk of the “surge,” troop drawdown, etc., are nonsense, because the U.S. plans to occupy permanent bases and control the remaining oil reserves in the region. These wars are being paid for by sale of Treasury bonds to possible future adversaries such as China, while the U.S. bubble economy that is backing up our military forces overseas is deflating. Clearly something has to give, either through exhaustion of our military capability abroad, economic collapse at home, or the catastrophe of a world war. The denouement seems to be drawing closer as foreign governments dump their U.S. dollars which are declining in value due to the twin trade and fiscal deficits. What our leaders should now be doing is recognize the fact that we live in a multilateral world where conflicts can only be resolved by nations acting as equals under the umbrella of the U.N.

So many mistakes have been made over the last several decades that it is difficult to see how real change could take place without a revolutionary transformation of American society. Those who worked for change in the 1960s through opposition to the Vietnam War hoped for such a transformation, but the opposite has happened.

The cause has been the assertion of influence by the corporate-financial-government elites, who have essentially negated the ability of the people through their elected representatives to manage affairs for the sake of the general welfare as stated in the preamble to our Constitution.

The government under the leadership of both political parties has even violated some of its basic constitutional mandates.

Congress, for instance, has failed to exercise its duties with respect to oversight and control of the monetary system, having ceded its authority to the private banking industry through the Federal Reserve Act of 1913. Congress has also failed to provide effective regulation of the financial industry under the interstate commerce clause of Article One, as the subprime mortgage debacle and other abuses have clearly demonstrated.

The government as a whole has failed to provide for equal protection of the laws as specified in the Fourteenth Amendment by allowing so much of the wealth of the nation to be transferred to the upper income brackets who manipulate the corporate and financial systems to their advantage. It could also be argued that the passivity of the government in standing by while millions of people have lost their homes, jobs, or pensions due to fraudulent financial practices or speculative bubbles violates the Fifth Amendment provision which specifies that “no person shall be…deprived of life, liberty, or property, without due process of law.”

Finally, it could be argued that many of our economic and tax policies violate the Thirteenth Amendment which states that, “Neither slavery nor involuntary servitude, except as a punishment for crime whereof the party shall have been duly convicted, shall exist within the United States, or any place subject to their jurisdiction.”

We’re used to interpreting the Thirteenth Amendment as applying only to chattel slavery, but economic servitude can be almost as onerous. Certainly the provision of the 2005 bankruptcy reform legislation which makes student loan debt and unpaid taxes a lifetime obligation, not subject to bankruptcy write-off, constitutes “involuntary servitude.” So too may a cumulative tax burden where up to fifty percent of an individual’s income goes for taxes at the federal, state, and local levels.

It is obvious that the elite intend to make every effort to ride out the current crisis. This is what the so-called “soft landing” is about.

At the point in time when it may become possible to have real change, it can only be done effectively as it was accomplished during the New Deal—through control of credit as a public utility. This is because the causes of social distress are economic, and the economy is controlled through the monetary system. The essence of monetary policy is who controls credit and for what ends.

It would not be difficult to create programs, institutions, and systems to develop an updated New Deal to meet present conditions. The knowledge is there, as is the technology. What is lacking is political recognition and will. Today most individuals are passive spectators to the ongoing train wreck, and none of the leading presidential candidates is addressing basic policy issues. Ninety-five percent of what they are saying is media fluff.

As an example of what could be done, it would be possible immediately to place all pubic infrastructure programs within the U.S. under a funding mechanism whereby a federal infrastructure bank could be self-capitalized by special Treasury infrastructure bonds with lending at zero percent interest for a multitude of long-term projects.

A new money supply would thereby come into being that would completely by-pass the Federal Reserve System. This could be supplemented by a citizens' basic income guarantee and a National Dividend, similar to the Alaska Permanent Fund, which would reduce poverty and inject purchasing power at the grassroots level. The denial of purchasing power except through more debt in a country where the wage and salary base has stagnated is an economic crime. One purpose is doubtless to create an impoverished underclass as a source of military recruitment.

Such measures would revolutionize local economies and restore the ability of the general population to participate in the economic life of the nation. But until enough people wake up to what is going on and the fact that they have the power within themselves to make a difference, nothing will change. They will continue to be fleeced by the rich and powerful as they have been throughout most of history.

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