

# Economic Democracy and a Guide to the 2008 Presidential Election

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The United States is at a crossroads. In the midst of a stalling economy, a decline in the standard of living for a majority of the nation's population, out-of-control societal debt, growing concentration of wealth among the upper income brackets, and a stampede toward totalitarian governance derived from the disastrous Mideast war policy of the Bush/Cheney administration, an unprecedented number of people are saying the nation is headed in the wrong direction. Poll numbers on the performance of both President George W. Bush and the Democratic-controlled Congress are at historic lows.

2008 clearly represents an opportunity for the nation's voters to seek a new direction. With a presidential election now less than a year away and the primaries having begun, an abundance of new ideas might be expected.

First, Iowa.

The winners in the Iowa caucuses were those candidates who have been arguing most forcefully for change. The Democratic winner was Barack Obama, for whom the word "change" is a mantra. John Edwards, who has made himself the voice of working class populism, was second. Hillary Clinton, the candidate of "experience," finished third, though she is clearly the "safe" choice of the U.S. mainstream media and political establishment. Also sounding populist themes was Republican Mike Huckabee in an unexpected victory achieved perhaps in part by having at his side for photo ops the comforting presence of TV strongman/good-guy Chuck Norris.

Moving on to New Hampshire. There Obama was enjoying a double-digit lead over Clinton in the polls the night before the primary. Somehow, Hillary not only erased that lead during the silence of night but forged ahead to win decisively the next day. Were the pollsters dead wrong or was the voting system rigged for the establishment favorite? The controversy has begun to rage, though we will likely never know. In any case, the Obama momentum has hit a wall.

Meanwhile, on the Republican side, "Lazarus" John McCain saw his moribund candidacy revived in a victory over big-spending Mitt Romney. McCain pulled it out on the basis of no evident rhyme, reason, or principles. He just seemed to be the familiar Republican voice the voters felt most comfortable with. Huckabee was in the shadows, there being few fundamentalist Christian voters in the comfortable middle-class towns and shires of the Granite State.

But amidst the hysteria, none of the leading candidates has put forward a program that will solve the huge problems the country now faces.

In order to see where we are today, we must examine where we have come from. The reader is forewarned. This is a long article, with some diversions into the murky history of U.S. finance. So please be patient.

What follows first is an overview and analysis of the economics of the modern industrial age. Such an overview is essential in understanding that economic issues do not occur in a vacuum, nor do they come into being overnight. Rather what the U.S. faces today is a crisis rooted in history.

But first, as to sources. With good reason economics is called the “dismal science.” Never has it been more dismal than today, with most economists bogged down in meaningless mathematical modeling of the free-market economy or in ideological justifications of the status quo.

One of the exceptions was John Kenneth Galbraith (1908-2006), New Dealer, Harvard professor, and prolific historian. The following account draws in part on Galbraith’s *A Journey Through Economic Time: A Firsthand View*, published early during the first Clinton administration in 1994.

### Modern Economics and the Tragedy of Capitalism

Modern economics deals with the industrial age, which began to emerge in Western nations by the late eighteenth century. The industrial age is that period of recent history defined by the application of mechanical energy—starting with steam power—to the processes of production, transportation, and communications.

Politically, the century-and-a-half between the American Revolution (1775-1783) and World War I (1914-1918) saw a historic struggle between the new world of emerging capitalism as a method of organizing the application of industrial power, and the old one of entrenched feudalism, defined as the control of land by a hereditary aristocracy. As Galbraith made clear, the power of feudal society had been broken for good by the time World War I came to an end.

By then, capitalism, defined as private ownership of the means of production, had advanced furthest in Great Britain, the U.S., Germany, and Japan. Close behind were France, Russia, and Italy. Ownership under this system was secured entirely by the possession of money. Living side-by-side with a relatively small number of industrial entrepreneurs and finance capitalists were the growing masses of landless workers who had relocated from farms to the cities. Agriculture was also becoming mechanized, but in this case capital gravitated toward the marketing and distribution of farm products and to financing of the planting-to-harvest cycle. But even in the production of food, money, as opposed to human and animal labor, came to dominate.

But as Galbraith explained, “the tendency of capitalism [was] to grave instability,” with workers often losing their jobs during business “panics” or due to automation. In Great Britain and the U.S., this instability tended to be viewed as natural, the idea being that any attempt by the state to interfere in market dynamics would only make matters worse. As a corollary, the understanding of economics by the political world, which remained mired in medieval concepts natural to a landed aristocracy, remained shockingly primitive.

The belief in the essential “rightness” of the free market was promoted most strongly by the

town merchants and money-lenders who wanted to free themselves from the restrictions on commerce and capital by the policies of mercantilism. This was the system by which the kings and princes of Europe attempted to control commercial activity for the benefit of their hereditary regimes and the fixed class structure which they saw as fostering national wealth and social stability.

The new capitalist economics, by contrast, was transnational in scope, since money as an abstract concept knew no boundaries. This epochal change was reflected in what came to be called “classical,” “liberal,” or “laissez-faire” economics. This set of ideas originated with the British writers Adam Smith (1723-1790) and David Ricardo (1772-1823), who saw the private sector and government as mutually antagonistic. Their theories became the umbrella under which capitalism began to flourish. In the U.S., this attitude was also in part a legacy of the American Revolution, whose leaders had deeply resented interference by the British government with colonial economic activity.

Their attitude mirrored the fact that the prosperity of the American colonies depended in large part on the availability of paper money, or scrip, that was issued independently of the Crown or Parliament by the colonial legislatures. This currency fueled commerce even after new issues were outlawed by the Currency Acts enacted by Parliament in 1764. While existing scrip continued to circulate, the shortage of fresh paper money brought on a depression that led directly to action by the Continental Congress to break with Great Britain. Once this step was taken, issuance of continental currency followed as a matter of course.

The Constitution of 1787 gave the new U.S. government substantial economic power by granting Congress the right to regulate interstate commerce, issue money, levy taxes, and borrow on credit. Still, more than any other nation, the U.S. became the stronghold of free-market ideology and remains so today. Government was viewed as the protector of capitalistic enterprise, which accounts for the radically anti-aristocratic tenor of the American system. But as with many other forces of history, while it may have started as a fresh new idea conceived in opposition to the highly regulated economies of the late medieval period, capitalism as described by classical theory eventually became the encrusted dogma we live under today.

Classical theory was as much an ideology as a product of scientific analysis. It reflected the way things were supposed to work when the power of money was unleashed, rather than what actually took place day-in-and-day-out. For instance, a key argument made by its proponents as industry developed during the nineteenth century was that an economy has a natural tendency toward a full-employment equilibrium. Thus, it was claimed, because labor is a commodity and workers are natural competitors with each other in vying for jobs, they would accept wages low enough to ensure a living for all.

Though workers during the nineteenth century often earned barely enough to avoid starvation, the system at least was viewed as tending toward stability. Social Darwinism—survival of the fittest—was a major factor in justifying miserable social conditions, even though this new theology replaced ideals of Christian charity with the harshness of supposed economic necessity. The beneficiaries, of course, were the rich financiers and industrialists, the Robber Barons of the era.

Digging deeper, we find a central dogma in classical economics which persists today, even though British economist John Maynard Keynes, writing in the 1930s, effectively demolished

it as a concept informed people believe in. This was that all business earnings deriving from the sale of goods or services can be defined as income, and so become available to the economy as purchasing power when products are brought to market. This mechanism, in classical theory, is the driving force which supposedly results in jobs for everyone.

The concept is known as Say's Law and is the bedrock belief of all classical economists who not only control orthodox economic education but who have carried their beliefs to the point of fanaticism in such extreme laissez-faire philosophies as Libertarianism, the Austrian School of Economics, and the supply-side theories that have driven the Republican Party ideologues of the Reagan and Bush I and II administrations who have tried to spur economic growth by cutting taxes on the upper income brackets.

Jean-Baptiste Say (1767-1832) was a French businessman and economist who edited and promoted the ideas of Adam Smith. What became known as Say's Law stated that the production of goods by an economy automatically produces the ability of society to purchase those goods, because earnings from their sale is immediately recycled as purchasing power. Thus prosperity should always result from any stimulation of production.

In advancing his claims Say wrote: "It is worthwhile to remark that a product is no sooner created than it, from that instant, affords a market for other products to the full extent of its own value. When the producer has put the finishing hand to his product, he is most anxious to sell it immediately, lest its value should diminish in his hands. Nor is he less anxious to dispose of the money he may get for it; for the value of money is also perishable. But the only way of getting rid of money is in the purchase of some product or other. Thus the mere circumstance of creation of one product immediately opens a vent for other products. It is not the abundance of money but the abundance of other products in general that facilitates sales... Money performs no more than the role of a conduit in this double exchange. When the exchanges have been completed, it will be found that one has paid for products with products." (*A Treatise on Political Economy*, 1803, p. 138-9)

By assuming that producers immediately spend the money they receive as the price for goods and services, Say overlooked the key fact of capitalist microeconomics which was that of retained earnings. For an industrial firm in an age where continued technological innovation is a fact of life, a considerable amount of earnings must be retained in order to invest in future improvements. Even if the retained earnings are deposited in a bank they will not necessarily result in new spending. This is because, as modern economist Michael Hudson has demonstrated, bank deposits normally result in lending for asset purchase rather than capital investment. The latter, by contrast, is accomplished through capital markets which are a completely different source of funding than bank lending.

Say's law was actually more descriptive of the medieval village economy which still existed in much of Europe rather than modern heavy industry. But it took hold and persisted because it achieved a goal the apologists for capitalism strove mightily to accomplish: to keep government out of the capitalist marketplace except to provide police protection for the emerging monetary power.

Although some astute observers began to suspect that Say's Law was wrong and that an endemic "gap" between prices and purchasing power existed in the capitalist system, the causes of this gap at the microeconomic level did not appear until the 1918 publication of a book called *Economic Democracy* by British engineer Major C.H. Douglas. Douglas characterized the gap as being reflective of positive forces by stating that it really

represented the appreciation of the nation's productive capacity both through the accretion of human knowledge and the harnessing through mechanization of the bounteous energy of nature.

In order to fill the gap between prices and purchasing power, Douglas proposed that a regular stipend be paid by the government to all citizens, without recourse to taxation or public borrowing, which he called a National Dividend. Douglas's ideas became a political force in Great Britain and the Commonwealth nations of Canada, Australia, and New Zealand. It was called the Social Credit movement and continues today in those countries. But Douglas's ideas were opposed by the financiers and their economic apologists because the shortage of purchasing power he identified by now was being filled after a fashion by huge amounts of money lent at interest. This economic fact is what accounts for the enormous economic and political power of the bankers who rule the world today.

John Maynard Keynes, writing during the Great Depression of the 1930s, was the first major economist to reflect what Douglas had been saying for over a decade by pointing out that all earnings from the sale of goods and services did not find their way back into the economy. Keynes said this was because some of the earnings were saved—i.e., were withheld from immediate spending by producers and consumers alike. Thus there occurred a chronic shortage of income that Keynes said would lead to periodic depressions. As Galbraith—an early American Keynesian—pointed out, during a depression, a new—and this time deficient—equilibrium would settle out at a chronic level of under- or unemployment. It was to break this underperforming state of an economy that Keynes recommended the use of government deficit spending as an alternative to private sector bank lending.

This solution—though imperfect—came into being during the Great Depression of the 1930s and has persisted. Until then, the notion prevailed that government would do best to stay out of economic matters altogether, even if the system produced a permanent division of society between the haves and have-nots, with the presence of permanent poverty and a permanent underclass prone to crime and dissolution. At that point, the discussion turned on whether the poor were naturally vicious or whether they were victims of their condition and therefore to be pitied, reformed, or “saved” by some social or religious do-gooder. Meanwhile, Douglas's National Dividend solution was ignored, and Keynes's ideas, which led inevitably to the modern Welfare State, were grudgingly implemented as at least allowing capitalism to continue to exist by forestalling a socialist revolution in the Western nations.

But the fact remained that capitalism produced a deeply conflicted society. As U.S. scholar Page Smith outlined in “The Rise of the Industrial America: A People's History of the Post-Reconstruction Era,” the central problem of the industrial age was “the war between capital and labor.” This war in the U.S. and Britain was largely won by capital, though labor eventually got better conditions through trade unionism and government regulation of industry, as well as a greater share in the prosperity that science and technology wrought.

Matters were different elsewhere in the world, particularly in Germany and Japan. Both of these countries tended to see government and business as essentially united in the interest of economic development. On continental Europe, ideas of socialism also had a greater impact than in the English-speaking world, as did the notion that the state had a basic responsibility for worker well-being.

The economies of Germany and Japan were also unique in their toleration of industrial cartels which operated under state protection. In the U.S. and Britain, on the other hand,



while there were tendencies toward cartelization through the toleration of business and financial trusts, the economic ideology was essentially anti-monopolistic in its view of perfectly functioning free markets.

But there remained a major anomaly in the position of the U.S., in that it never gave up its adherence to a protectionist tariff policy in contrast to the free trade practiced of Britain. Historically, the purpose of tariffs in the U.S. was to protect the growing capitalist enterprises against goods produced in Europe by cheap labor. But even with this major early example of government-sponsored corporate welfare, laissez-faire remained the predominant dogma of U.S. business interests.

Going back to World War I, it was a catastrophe for Europe, where neither the British nor the German models could protect those nations from bankruptcy. In Russia the result of the war was revolution leading to communism. But the United States, which bankrolled the war through lending, became the world's financial center. The prosperity that resulted led to the relative bounty of the 1920s, once the country shook off the post-World War I inflation and depression. But this prosperity ended in the collapse of a vast bank-generated speculative bubble when the stock market crashed in 1929.

The U.S. government was completely unprepared for the Great Depression. Upon election in 1932, President Franklin D. Roosevelt was as committed to laissez-faire economics as his Republican predecessors. But he and his aides could see that elsewhere in the world, particularly Italy, Germany, and the Soviet Union, governments were taking control and rebuilding their national economies, if necessary, by force.

So the U.S., also of necessity, began to implement measures that could be and were criticized as socialistic but which were still an absolute requirement for the survival of a functioning nation. Both the United States and the other Western democracies, along with the emerging totalitarian states, finally acknowledged that, as a minimum, vulnerable segments of their populations, such as the unemployed and the elderly, had a right to at least a small degree of income security whether or not they had jobs.

One method employed by the Roosevelt administration to pull the U.S. out of the Depression was a limited program of wage and price controls under the National Recovery Act. Job-creation programs were also used, such as the Public Works Administration, the Works Progress Administration, and the Civilian Conservation Corps. Social Security and unemployment compensation came into being, and infrastructure projects such as the Tennessee Valley Authority and the Boulder and Grand Coulee Dams provided both jobs and electrical power. The Reconstruction Finance Corporation provided low-interest loans to both the public and private sectors, and the Rural Electrification Administration brought electricity to the countryside.

The face of modern America was molded by these and other New Deal government-sponsored programs. Classical economics, it seemed, had been thrown on the refuse pile of history. At last a full-employment economy was on its way to being achieved, erected on the ruins of the free-market economic system that had failed. The main sources of financing the new system were government borrowing and a stiff income tax, especially affecting the upper income brackets.

By now the problem had been recognized among mainstream economists and politicians—the modern industrial state did not in fact generate enough purchasing power to

support full employment. Keynes and his followers referred to purchasing power by the term “aggregate demand.” The creation of sufficient aggregate demand now became the central objective of governmental economic policy in the U.S. and other Western industrial nations.

It was World War II that completed the task in the U.S. of creating a full-employment industrial economy. The war, with its rationing and shortage of consumer goods, resulted in so much unspent income for working people that savings rates soared. This savings provided the impetus for post-war prosperity all the way through the 1950s and into the 1960s. The prosperity was buttressed by a favorable trade balance with respect to the rest of the world which had not yet recovered from the war. Sale of U.S. goods abroad also benefited from purchases of American products, including foodstuffs, by other nations which borrowed from U.S. banks through the International Monetary Fund.

But by the 1960s, profound changes were stirring. As the U.S. economy slowed, President John F. Kennedy responded, not by fiscal pump-priming, but by cuts in income tax rates. The idea was that money could be more effectively spent by individuals than by the government. While this may have been true, it was a fact that aggregate social demand had begun to decline, especially with the diversion of economic resources into expenditures for the Vietnam War.

Still, by the end of the 1960s, the U.S. was prosperous enough for President Lyndon B. Johnson and, to some extent, President Richard M. Nixon, to contemplate the elimination of poverty once and for all. The War on Poverty came into being, but at a critical moment around 1970 the movement to utilize macroeconomics to solve the endemic problem within a capitalistic system of a permanent division between the haves and the have-nots ran out of steam. This came with the failure of the U.S. government to enact a basic income guarantee, also known at the time as the reverse income tax. The symbolic moment was the defeat, led by Southern conservatives in the Senate, of Nixon’s Family Assistance Act in 1970.

Galbraith, virtually alone among economists, saw the failure to provide a real solution to poverty as a watershed event. He connected this failure to military spending by writing, “A highly effective design for avoiding succor to the poor is to put forward the higher claims of war, defense, the military.” He noted that in 1972, Senator George McGovern proposed a negative income tax “that would have provided a basic underpinning of income for all Americans.” McGovern was opposed within his own party, most notably by former Vice President Hubert Humphrey, and the idea never made it to the 1972 election campaign, where McGovern was soundly defeated by Nixon anyway.

The idea of unconditional income security, says Galbraith, “was permanently buried.” It was perhaps the last, best chance for American capitalism to solve the basic problem of inequality and unfairness which had caused the ideologies of socialism and communism to appear so appealing to people around the world for so many decades. It was a broad-spectrum failure of the capitalistic ruling class to realize that the bounty of science and technology created the opportunity for an entire society to rise to a new level of security and culture, not just those with good jobs or plenty of assets.

Above all, this can be seen as a spiritual failure, a failure “to love thy neighbor as thyself.” Instead, the rulers of society chose to embrace a consumer-based economy, where those with the best employment and who owned the businesses would luxuriate in “the good life,” while the rest of the people got along as best they could with limited opportunity and access

to resources.

The point to be made is that the basic income guarantee—negative income tax—was not just an “antipoverty” measure. It was a guarantee of income security to the entire nation. No person would ever have to fear permanent loss of income and the degeneration of status, humiliation, and ill health that go with it. No one would have to fear these things befalling relatives, parents, or children. Without income security, an entire nation—or world—becomes subject to an ever-present emotion of fear. Lack of income security in a capitalistic economy makes fear and other negative emotions the predominant coloring of individual and social life. Many people then pray to God for deliverance when the cause is economic and social institutions engendered by the wealthy controllers of society.

The 1970s was a decade of economic disasters. As this author wrote in his recent article, “Crisis in the U.S.: Plan B?”: “The 1970s had seen catastrophic economic developments. It started with the removal of the gold-peg to the dollar in 1971 and continued with the explosion of U.S. currency on the international scene due to the petrodollar, soaring trade and fiscal deficits, action to permanently mortgage us to military-backed dependence on imported Middle Eastern oil, a permanent tilt in favor of Israel vs. the Islamic world, and, finally, the galloping 1970s inflation. These events led to the Fed-induced crash of 1979-1983 which left us with today’s travesty of a ‘service’ economy.”

The 1970s were followed by the “Reagan Revolution” of 1980-1988, which continued through the Bush I administration until the election of Bill Clinton in 1992. In the words of Galbraith: “Tax reduction oriented to the affluent, unduly enhanced defense expenditure, and a large deficit in the federal budget were the prime manifestations of error. Related was a large and persistent deficit in the American balance-of-payments account, causing the United States to shift from being the world’s largest creditor to being, by a wide margin, its largest debtor. There was erosion of the nation’s competitive economic position, social tension in the big cities, financial speculation and manipulation extending on to widespread and unsubtle larceny and, in the end, the painful recession cum depression of the early 1990s.” (*A Journey Through Economic Time: A Firsthand View*, p. 210.)

Galbraith acknowledged Reagan’s remarkable success in one particular area: “The striking achievement of the Reagan policies...was the improvement he made in the fortunes of the affluent and the rich while visiting neglect upon the poor. Here the results are beyond question. No one will ever have any reasonable doubt that Mr. Reagan did keep faith with his constituency.”

What was called “Reaganomics” was a unique hybrid in combining the worst features of laissez-faire capitalism in turning the economy over to deregulated business interests—particularly financial institutions—with Keynesian-style deficit spending consisting largely of a massive windfall for the military-industrial complex. Note too that most of the profits from military spending—deriving in particular from development of the technology-rich military infrastructure characteristic of the U.S. with its emphasis on air and sea power—went to the affluent who provided the backbone of political support to the Republican Party. The military-industrial complex ever since has flourished due to corporate welfare at its very worst.

Naturally a military establishment so endowed with borrowed dollars for which they are essentially never accountable would exercise itself on behalf of whatever the controlling parties sought to accomplish by way of foreign wars. First we had the “Reagan Doctrine” of



proxy wars in El Salvador, Nicaragua, Angola, and Afghanistan, leading to the Bush I wars in Panama and Iraq, transitioning into Bill Clinton's military excursions into the Balkans, then culminating in the explosion of military conflict in Afghanistan, Iraq, and perhaps now Iran under President George W. Bush.

Again, it has all been paid for with borrowed money, even as the Reagan tax cuts for the rich were, under Bush II, renewed and extended. And, in the ultimate Keynesian insult to any lingering notion of fiscal prudence, the wars of George W. Bush haven't even appeared in the federal budget. They have been paid for by "supplemental" appropriations enacted by a compliant Congress coerced into showing that they, like the president, "support the troops."

From Reagan's first administration until today, the income and wealth gaps between rich and poor have deepened. Public and private industrial and service infrastructures, including public school systems, have crumbled, even as private consumer expenditure, led by the comfortable and well-off, has soared. Economic growth during the Reagan years was driven by luxury products for the rich and credit-card spending by the middle class.

From all this, a personality type has emerged which defines those at the top of our culture. Immaculately-dressed, including the finest designer clothes; well-manicured and enjoying the best of health care—including plastic surgery and beautification spruce-ups; a sex-life buoyed by Viagra and Cialis; well-invested and occupying or retired from the best jobs in business, the professions, and the military; with personalities that are demanding, petulant, conceited, haughty, refined, sophisticated and knowledgeable in regard to utilizing the finest consumer products available; with their looming hysteria kept at bay by prescription anti-depressants; and mostly solidly Republican, though sometimes molded in pro-business Clintonesque tradition of the Democratic Leadership Council: these are the people in charge of the U.S. today.

This class of privileged Americans embodies the abject failure of capitalism since it firmly and finally turned its back on any real intent of fairness, equality, or sharing of the bounty deriving from the industrial age. Again, the denial of responsibility began in earnest with the rejection of proposals for a basic income guarantee in the late 1960s and early 1970s. It continued with the Reagan Revolution and the Reagan tax cuts. It marched on through the Clinton years and has now achieved full flower in the proto-fascism of the Bush-Cheney administration. Each of these political phases has been floated by a financial bubble—the merger/acquisition buyout bubble during the Reagan/Bush I years, the dot.com bubble of the Clinton presidency; and the housing/equity/hedge fund bubble of the Bush II economy.

The values of the privileged world which have subsisted inside these bubbles are based upon "ownership." People define themselves not by what they are, but by what they possess. This extends into their social activities and affiliations, which are a type of possession.

What house, what car, what clothes, what furnishings; where they vacation and how they travel; the gifts they give and the ones they get; the schools they went to and the ones their children attend; their music, their tastes, their celebrations: all are manufactured to suit the upscale image.

This world is defined by a word: "consumerism." It's what keeps the wheels of the economy turning, because a constant "cash flow" must be generated to keep trade, jobs, and taxes in

motion. There is never any rest, except with medication, never any introspection, unless in “yoga classes.” Individuals themselves are in a perpetual state of fantasy, frustration, and anger, as any service industry worker knows who has been on the receiving end of an angry consumer complaint.

The nature of the consumer society was aptly defined by Mike O’Flaherty in a 1999 article in *Baffler* 12 entitled, “Rockerdämmerung.” Speaking of the music industry in terms that apply to all lines of consumerism he wrote: “Planned obsolescence, the promise of the new and improved, the sneer of willful cultural amnesia—these are the values of the marketplace, radical only in their destructiveness...All around the world, people are losing their ability to imagine anything outside the eternal present of a transnational corporate capitalism, the depth and breadth of which now seems virtually limitless. And they are beginning to forget that anyone ever imagined something beyond it.”

With Reaganomics and what has followed, the takeover of the world by consumerist/capitalism has almost been completed. Within their world the affluent who oversee this culture reside in a bubble of vanity and denial. Above all, this class of Americans is convinced, from the bottom of their hearts, that war is a good thing if: a) if it can be rationalized as being caused by the alleged actions of foreign evildoers; and b) if the Americans who die in the war are the sons and daughters of poor people.

But the poor people are the flies in the ointment. One of the biggest economic problems in the U.S. today is the shortage of minimum wage workers for the necessary service jobs. It’s why the rich welcome “undocumented workers.” Unfortunately, there is nowhere left in America where service industry workers can even afford to live. The ever-growing underclass upon which the affluent depend is increasingly in danger of poverty, incarceration, or even extermination due to the collapse of health and social services. And increasingly the underclass consists of former members of the middle class who can’t get decent jobs or jobs with benefits. This has engendered a level of fear and frustration which is doubtless a driving force in the populist politics of the 2008 presidential campaign.

Much of the underclass is hidden from view. Many live with their parents or in group houses that used to be the homes of middle class families. Taking a broader view, the underclass now can be said to include literally hundreds of millions of people or more, because many are living in foreign nations which, on our shrinking globe, are actually the slums of the global system.

The underclass includes the more than two million U.S. citizens in prison, almost a million homeless, millions more of illegal immigrants working at jobs below the minimum wage, plus millions abroad who work in sweatshops or slavery-like conditions assembling consumer products for American markets. Then there are the millions in nations whose labor services the debts their countries owe to the International Monetary Fund or foreign banks and investors.

Again back at home there are millions more Americans in debt to financial institutions, including those who must work for years to pay off student loans, probably a million women who work in the sex industry just to survive, and millions of college graduates who can’t get decent jobs, so are employed in “food service” and the like.

Finally, we should mention the million or more in the Middle East who have been killed or

displaced by Bush/Cheney-initiated wars, plus the millions in underdeveloped nations who languish outside or on the fringes of the global system.

Many of these human beings may be regarded as the throwaway refuse of capitalism. But worldwide a revolt is growing. The chief alternative to American-style capitalism can be found in Russia, which today is seeing a resurgence which the U.S. establishment loathes and fears. Russia's success lies in its increasingly potent and effective combination of market economics combined with the socialist institutions left over from Soviet days.

After all, communism had succeeded in mastering the intricacies of heavy industry. It was in the areas of consumer production and political freedom that brought communism to a halt. The new Russia has addressed those problems to a considerable degree. Contrary to the fulminations of the *Washington Post*, Russia is today a democracy with vastly improving living conditions. Similar conditions are being established in Venezuela by the government of Hugo Chavez and are starting to appear in other Latin American nations, such as Argentina, which have broken away from the "Washington consensus."

These reflections leave us with the inescapable conclusion that overall, the most salient fact of modern economics is that of the tragedy of capitalism. The system is tragic because it diverted the productivity of science and technology, which is neutral with respect to political ideology and which is capable of producing its material bounty under a diversity of systems of ownership, to a condition of terrible abuse by the property-owning class.

It might have been a relatively simple matter for the capitalist class to share the good things of life which are so capable of easing the burden of human life. Instead, they have monopolized this bounty for themselves and their families and associates to the detriment of the majority of the people of the world. They have created for themselves a legal, ideological, and physical fortress and ringed it with police forces and armies. Rather than allowing the modern age to become increasingly democratic and altruistic, they have created a dictatorship of the financial elite. It is now a dictatorship that is hardening to protect itself.

With the 2008 U.S. presidential election, it should be the task of the candidates to challenge this dictatorship and find a way for a peaceful transition to a new economic paradigm. But while they call for change, there is no indication the candidates know what to change.

### The U.S. Banking System

A special word is in order for the U.S. banking system which has played such a dominant role in the economic events of recent decades. It is this system which forms the power base of the dictatorship of the financial elite.

Of course banks have existed for millennia. Because the history of banking and finance have been treated in several other articles by this author that have appeared during the last several months on Global Research and other websites, that information will not be repeated here.

It is important to note, however, that throughout history, banks have always operated under some kind of charter or license from the prevailing political authority—or have been owned by that authority—and that they have served a variety of purposes. Thus banking and politics have always gone hand-in-hand.

Overall, banks have served four main purposes—one legitimate, one dubious, one puzzling, and one deeply flawed.

The first purpose—a legitimate one—is to facilitate commerce. It is often cheaper for a business to borrow capital from a bank than to stockpile cash itself. This was the purpose of the state banking system in the U.S. prior to the Civil War. The state-chartered banks existed to provide working capital for commercial transactions, such as stocking inventory, or for business expansion. Use of banking for these purposes was tied to specific commercial activities—the “real bills” doctrine. Of course credit used for this purpose has a cost which is factored into prices. When these loans are repaid, they are canceled at the bank which thus removes purchasing power from the economy. This is another area, besides retained corporate earnings, that contributes to the gap between prices and purchasing power identified by C.H. Douglas. But lending for commerce itself remains a legitimate activity.

The second use of banking—the dubious one—is for capital formation in the creation of new businesses, a function which overlaps with capital markets such as the stock exchanges. But this use very easily turns into lending for speculation by permitting investors to borrow money in order to buy stock on margin or to “leverage” investing by borrowing money in order to purchase whole companies. The costs of this borrowing also show up in consumer prices without introducing any new purchasing power into the system.

This practice has mushroomed in recent decades starting with the buyout/merger/acquisition mania of the 1980s and has reached disastrous proportions through the creation and growth of equity and hedge funds. The use of bank borrowing for such speculative purposes is an obvious abuse that should not even be legal. It is actually a form of theft from the nation’s natural and normal store of credit that should be carefully administered by competent public authorities as a utility as critical to social health as the water supply.

The third use of banking—the puzzling one—is for consumer credit. This includes borrowing for big purchases such as buying houses and automobiles, or small ones such as items bought with credit cards. Increasingly it includes purchasing even the necessities of life such groceries.

Buying an object with a credit card often means that a person cannot afford to buy it at the present moment. So the person is gambling that he or she will be able to pay off this loan—including interest—at some point in the future. What is puzzling is that in the midst of what is claimed to be the most productive economy in the history of the world, why are most people so poor that they cannot buy what they need to live with the proceeds of their present earnings? This is the ultimate repudiation of Say’s Law and its derivatives—Libertarianism, supply-side economics, and the like.

The fourth use of banking—the one that is deeply flawed—is the financing of government inflation through purchase of public debt instruments which allow deficit financing of public activities, most particularly the waging of war. Banking for the purpose of financing war has a long pedigree, going back to the medieval times where kings were perpetually in hock to the money-lenders. Today we have the national debt, which has been used primarily for war, as well as for the Keynesian pump-priming described previously. A classic case of the use of banking for deficit financing of war is the borrowing by the federal government under the Bush/Cheney administration to raise the trillion dollars already spent on the Iraq and

Afghanistan wars.

The use and misuse of private sector banking within the U.S. for these purposes has never been greater. By the late 19th century, banks had begun to own significant amounts of the stock in other industries, so were becoming key players in economic growth and development. But much more money became available for bank lending once the Federal Reserve System came into existence in 1913 and the Sixteenth Amendment to the Constitution was enacted which allowed the government to raise huge amounts of money through the income tax. It was these tax proceeds which enabled the government to borrow. The government debt in turn collateralized the massive bank lending which became characteristic of much of twentieth century economic growth. What really drove this growth has been technological innovation. The wealth from this growth has been skimmed by the financial elite.

The system allowed the U.S. to float the loans to the World War I combatants which effectively shifted world financial power to this country over the next decade. It allowed the explosion of speculative lending through the 1920s which led to the 1929 crash. At that point, banking took a back seat with respect to government policy, even though interest rates for bank borrowing were lowered. The trouble was that no one could afford to borrow any longer, so the cheap credit went unused. During the New Deal and continuing through World War II and beyond, the banks mainly played their traditional role as commercial lenders, because the government had taken over much of the issuance of credit for economic growth and investment.

Then starting in the 1950s and the 1960s, the banks gradually expanded their speculative lending activities until the inflation of the 1970s made lending unprofitable. At this time, the Federal Reserve took it upon itself to put on the brakes by plunging the nation into the worst economic decline since the Great Depression.

The recession of 1979-1983 was a totally lawless action by the banking industry. When Paul Volcker made his decision to act, he took President Jimmy Carter by surprise. As described in William Greider's history of this era, *Secrets of the Temple*, even the conservative Reagan administration was nonplussed.

But the banks by now had seized the upper hand, a milestone that was built into the structure of the economic system and made permanent by the banking deregulation of the 1980s. The banks now were free to inflate and deflate economic bubbles as much as they liked. As stated earlier, we had the buyout/merger/acquisition bubble of the 1980s, ending in the Bush I recession, the dot.com bubble of the Clinton years, ending in the stock market collapse of 2000, and the housing, equity, hedge fund, derivative, and stock market bubbles of the 2000s engineered by Alan Greenspan in order to support the wars of the Bush/Cheney administration.

Thus a semblance of prosperity has been created by the banking system—accompanied by inflation, growing wealth disparities, consumerism, and the ultimate loss of assets by the middle class.

Finally, these bubbles would have been impossible without modern methods of electronic processing and cash management, whereby nightly deposits by businesses through use of "repos"—repossession agreements—created a huge boost in banking reserves that allowed them to turn on the lending like tap water. It was the data processing revolution which



facilitated the current catastrophe.

The net results of the banking-based economy have been profits to the financial industry exceeding \$500 billion a year, combined with total societal indebtedness—including personal, consumer, business, and government debt—approaching \$50 trillion. No one in public or private life has any idea what to do about this debt except to keep borrowing to roll over the increasing payments until the dollar is blown away by inflation. Meanwhile, the amounts of money have been so great and the knowledge of how to manage it so small, the U.S. political system, traditionally ignorant of financial matters, has given up trying to cope.

Instead, all eyes are constantly riveted on the Federal Reserve and its chairman, currently Ben Bernanke. The idea that the central bank should be the controlling factor in economic decision-making and for these policies to be carried out through manipulation of interest rates is what is called “monetarism.”

Thus the Fed—an institution that calls itself “independent within the government” but whose branches are owned by the banks—has control over the entire economy. This control is, and should be, the most important function of national life. But the U.S. at its core can be called neither a democracy nor a republic, given any reasonable definition of those terms. The crash of 1979, for instance, was the most important economic event since World War II. But it was an extra-legal action by a revolutionary power. This revolutionary power was and is synonymous with the U.S. financial elite.

#### A Deeper Look at Credit

Where do the banks get the money—i.e., the credit—they lend? They do not get it from their depositors. Money held on deposit is part of a bank’s reserves, as is the federal debt instruments they hold in providing credit to the government. The money they lend is created, as John Maynard Keynes wrote, “out of thin air,” through the banks’ fractional reserve privileges.

But as this author has made clear in previous articles, it is really the nation’s natural store of credit which the banks are using. Credit is actually the ability of the nation to engage in productive economic activity aided by the powers of nature—sunshine, rain, the fecundity of the earth. The banks are allowed to monopolize this natural store of credit by the laws of the land. It’s a form of privatization which is much worse, much more egregious and destructive, than any other form of corporate welfare in existence.

The banks are granted by Congress and the state legislatures a monopoly on credit creation by which they control all of economic life. It’s a travesty which negates democracy at every step. In reality, this natural store of credit should belong to the public and be administered by the government in some equitable way. But the banks have stolen the privilege, and the politicians allow it to go on in the most negligent fashion.

Not only do the banks use this store of credit to lend as they please, they charge interest for its use. Again as noted in other articles, what we have in fact is a system of institutionalized usury, bringing up the age-old question of the morality of interest rates.

It has long been accepted by reasonable people that any charging of interest should reflect a normal level of profit plus risk in order for the practice to be ethically acceptable. The idea that interest is an end in and of itself to be used for financial policy, as is done by the

Federal Reserve, is a deeply flawed result of monetarism and has no basis in legitimate economic theory.

What the Federal Reserve did in 1979 and continues to do today is simply to facilitate a system of loan-sharking—a form of racketeering. Particularly notable examples today are the high rates of interest charged for credit card use and exploitation of college students by lending money to them for higher education. Thus students are in thrall to the banks for much of their future with loans that may not even be liquidated through bankruptcy.

Now, today, the banking system has become so overextended by its illegitimate activities that it is crashing. This is naturally to be expected. No one should be surprised, and no one should expect a different outcome. Rotten fruit stinks and is harmful for us to eat. Even mainstream writers such as Martin Wolf of the *Financial Times* recognize that the financial industry is totally out of control. In a November 27, 2007, article entitled, “Why Banking is an Accident Waiting to Happen,” Wolf wrote, “What seems increasingly clear is that the combination of generous government guarantees with rampant profit-making in inadequately capitalized institutions is an accident waiting to happen – again and again and again. Either the banking industry should be treated as a utility, with regulated returns, or it should be viewed as a profit-seeking industry that operates in accordance with the laws of the market, including, if necessary, mass bankruptcies. Since we cannot accept the latter, I suspect we will be forced to move towards the former.”

But there is another reason the banks have become so powerful, one that few have recognized. There are underlying reasons for the present financial crisis that go well beyond a simplistic explanation based on the psychology of human greed or arguments pertaining to “the war between capital and labor.” The whole war may be unnecessary, just a red herring. Because in a system that creates abundance, why should people be fighting as though we are facing scarcity? There is something here that just doesn’t make sense. Modern industry produces abundance, not scarcity. Why then are so many people in the world poor and becoming poorer?

We return to the issue of prices being liquidated by purchasing power, the central dogma of classical economics, the critique of that dogma by Keynes and his supposed solution, which has proved not to be a solution at all, just a postponement of the inevitable collapse.

The issue pertains to facts referred to previously that were discovered by C.H. Douglas almost a century ago. As stated previously, Douglas was the founder of the British Social Credit movement. Returning to the error in classical economics and Say’s Law that prices charged for goods and services are completely self-liquidating by the generation of income, Douglas showed that for a variety of reasons, most notably the necessity of retained earnings and the inclusion in prices of the costs of borrowing, sufficient income is never returned to the producing economy in order for people to purchase what can be manufactured.

But again, Douglas did not say, as did Keynes, that the “gap” should be filled by government borrowing to increase aggregate demand. Instead, Douglas said that the gap should be viewed as a benefit accruing to all of society from having a highly-productive economy where everyone does not have to work all the time in order to prosper.

Today, the “gap” is imperfectly filled by government borrowing and by consumer and business borrowing as well. In fact, the power and influence of the banking industry over

society occurs because it is the banks, utilizing society's store of credit, which fill the "gap" through lending, to their own profit.

In other words, Douglas showed how the industrial economy can be made to work for the benefit of all. The "gap," which all post-Keynesian economists know—or should know—exists, should be filled by direct payments to individuals by the government, either in the form of a National Dividend or price subsidies. This is the real solution to the central problem of modern economics. A form of this dividend already exists in the U.S. through the Alaska Permanent Fund.

As stated earlier, the National Dividend solution has been known in the English-speaking world since Douglas published his epic work *Economic Democracy* in 1918. The Social Credit movement which eventually formed became a political force in Britain, Canada, Australia, and New Zealand and still exists.

But Douglas's ideas were largely suppressed in the mainstream media and by orthodox economic teaching. The *Times* of London made a decision in the 1920s, for instance, that Douglas would never be mentioned in its pages. Douglas visited the U.S. in the 1930s and was told to his face by representatives of the financial elite that he would not be allowed to present his ideas in this country. Today, at long last, Douglas and Social Credit are finally beginning to be known. See, for instance, the new article on "Economic Democracy" in *Wikipedia*.

Following is an explanation of Social Credit by Wallace Klinck of Alberta, Canada, one of the world's leading proponents of Douglas's ideas. In his comments, Klinck explains the price-income mechanism that defines the National Dividend paradigm:

"Consumer prices include all allocated capital charges as additions to price which are necessary from an accountancy standpoint but which do not distribute equivalent incomes within the same cycle of production.

"Thus consumer prices include allocated charges which do not distribute incomes in respect of capital. That is, money is collected from consumers prematurely, and cancelled in repayment of bank debt incurred previously by loans issued to producers, as if to represent that our real capital is being consumed currently, whereas it is actually consumed or depreciated over a considerable period of time.

"The resultant disparity (i.e., the "gap"), growing increasingly as capital replaces labor as a factor of production, between final consumer prices and distributed effective consumer income, is currently 'bridged' by ever expanding issues of credit issued, or created, via repayable bank loans. Of course, this means that charges for financial costs in respect of one cycle of production are not fully liquidated within that cycle but merely passed on, or 'carried over,' as an inflationary charge to be recovered from future cycles of production. That is, one cannot liquidate, formally and finally, financial charges of today by issues of bank credit (i.e. debt) which become a further charge carried forward against future cycles of production. Such issues of credit may allow a large measure of consumer access to final consumer goods, at the expense of exponentially burgeoning debt and decreasing financial liquidity and progressive price inflation, but they do not cancel the financial costs of production as currently accounted—even though the real, i.e., physical, costs of production have been fully met when consumer goods take their finalized form and are ready for purchase.

"The essential problem is that the consumer is charged in prices, quite properly, with capital depreciation, but, quite wrongly, not credited with capital appreciation, which latter historically greatly exceeds the former. That is, realistically, we should have with passage of time a falling price-level with a growing source of income received independently of any incomes earned through paid work by participation in commerce or industry. The core mechanisms proposed by Douglas to rectify this revealed progressive error in national accountancy were the National Dividend and the Compensated Price (compensation of consumer prices at point of retail sale) financed by an issue of non- cost-creating consumer 'credits' issued, without being recorded as repayable debt, from outside the price-system to increase financial independence for the individual citizen and to effect a continuously falling price-level as the true physical cost of production falls over time.

"The true cost of production is the mean ratio, as measured in monetary units, of national consumption divided by that of production-always becoming increasingly less than a numerical value of one, as real efficiency increases with the use of new technology. Inflation of prices thus will be seen to be a fundamental violation of natural law. Money is essentially an information system. Inflation of prices is an indication of inefficiency or economic failure and is an abstract financial denial of the magnificent real advances which modern civilization has made in the realm of actual physical production efficiency.

"These new Social Credit consumption credits advocated by C.H. Douglas would as always already have previous debt claims against them in retail prices and will be cancelled, just as is money issued via consumer bank loans at present is cancelled, when businesses receive them via retail sales and use them to repay their issuing banks in settlement of their earlier commercial loans contracted in the usual manner for the facilitation of business operations. Money recovered by industry via price and replaced to capital reserve has a similar effect to its use for repayment of existing bank loans inasmuch as it is no longer available as consumer income and can only become so by reissue for a whole new cycle of production which creates a complete new and additional set of financial costs.

"Social Credit challenges the historic orthodox acceptance of Say's Law which states axiomatically that for every financial cost of production incurred an equivalent amount of financial purchasing power is issued and no overall deficiency of income can exist. While it may be true that 'at one time or another' in the past an equivalent amount of financial payments may have been issued, this is of little help or consolation to consumers if an increasing proportion of such income has been permanently canceled as effective income and is no longer available for purchase of goods which are currently emanating from the production system."

To conclude this section, we return to the late 1960s and the failure by the U.S. government to enact a basic income guarantee or a negative income tax.

We now see that what should have been proposed instead, and what would have introduced real economic democracy and given the capitalist system real human value was the National Dividend.

But it was never embraced, because the banks were making so much money off the system's failures and social conservatives were unwilling to "pay people for doing nothing." The banks were the ones financing the gap between prices and income, and they wanted things to stay that way. The social conservatives, led by Southern conservatives, were motivated in part by racism. But they were also content to perpetuate a system where only

the rich who live off their investments can be idle. Everyone else is condemned by Adam's curse to labor from cradle to grave.

And that leaves us where we are right now. We have a monetary system that is entirely debt-based. Money is lent at interest then must be repaid, with the issuance of credit being canceled and the banks skimming the cream through interest. This is why our economic system is such a rat-race and why economic "growth" is so imperative. People must constantly produce and sell more in order to pay off the debt and the interest on the debt. Corners are cut, corporations veer out of control, pollution is ignored, taxes are evaded, and the quality of life for most of society erodes.

The situation is much worse with a mature, slow-growth economy like the U.S. than with developing economies such as those of China and India. The ill effects are multiplied whenever interest rates rise against real income. But even when rates are cut to a de facto level of zero, as Japan has done, the economy has become so saturated with debt that no more can be sustained. In the U.S. today, the economic ship is sinking, and the banks are running around on the deck offering to loan people a very limited number of life preservers, of course at considerable profit to themselves.

Again, the root cause of the modern economic crisis is the debt-based monetary system which benefits the financial elite above all and which is founded in greed and fear. The crisis is ultimately spiritual, where those who covet the earth's resources steadfastly refuse to observe the injunction of Jesus to "love their neighbors as themselves." Some people wish to live by enslaving others. The slaves fight over the leftovers. That's really all there is to it. But God is just, and such a system must sooner or later collapse into dust. It's the law of cause-and-effect. Karma, some call it.

So are any of the presidential candidates truly trying to prevent the ship from sinking or are they just making rhetorical noise?

### The Presidential Candidates

In order even to begin to redress the major problems caused by the Bush II presidency, the immediate requirement which rushes to the fore is that of reducing the disastrous federal deficit. At a minimum, any serious candidate who is elected president will have to enact a major increase in federal income tax rates, especially for the higher income brackets. The Bush II tax giveaways which turned the \$300 billion Bill Clinton surplus into a \$500 billion deficit must be reversed.

Secondly, it will be impossible to continue the massive amount of borrowing which has financed the U.S. war machine in its military adventures in the Middle East and have a functioning economy at the same time. This borrowing, along with the supply-side tax cuts, has wrecked the federal budget and must be eliminated

No matter what any of the candidates say, these are the only two financial measures within the framework of the existing system that can have any immediate impact.

Next, a lot of money will be needed to finance the legitimate functions of government which the Bush/Cheney regime has neglected. More funding will be needed for Social Security and Medicare, though both programs could easily be replaced with real income security under a Social Credit/National Dividend system. How these entitlements will be funded through the



existing system in the face of the sharp decline in the standard of living for the middle class is impossible to fathom. Additional tax revenues are simply not available from an electorate for whom an estimated forty percent of income currently is paid in taxes at the federal, state, and local levels. And with the weakening of the U.S. dollar, endless infusions of funds from foreign investors to float the U.S. trade and fiscal deficits are not likely to be available without a fire sale on U.S. real estate and other assets.

Nevertheless, the 2008 election is one about “change.” In the polls, over 70 percent of Americans say the country needs to find a new direction. This is a staggering number. Of course it leaves 30 percent who think things are just fine. This 30 percent provides the core support for those Republican candidates who want to “stay the course” with the war and the economy, which they are characterizing as fundamentally strong. The status quo candidates include John McCain, Mitt Romney, and Rudy Giuliani. The differences among these three in substance are minuscule. All effectively are successors to Bush/Cheney in claiming to be strong in the War on Terror and satisfied that the economy has an acceptable future. None are worried about any of the inequities and concerns that are so obvious to a majority of Americans.

### The Republicans

The Republican Party, from its foundation, was the political expression of American capitalism, laissez-faire economics, and private sector control of the economy. This does not mean that the entire U.S. financial elite is Republican. The elite uses both political parties in different ways. But the Republicans certainly provide the most convenient cover for keeping populist government at bay. One way it does this is to use the media to distract voters with debates over “social issues,” such as abortion or gay marriage, so they will ignore the real economic problems of income equity and wealth distribution.

It was the Republican Party that was in power during the Roaring 20s which led up to the Great Depression. It was the Republican Party, under Nixon, that was in charge during the disasters of the early 1970s. It was the Republican Party that controlled the White House during the Reagan Revolution. Even during the Clinton years from 1992 to 2000, the federal government, with cutbacks in federal employment and expenditures, was largely out of the picture except for the strong dollar policies which brought in the foreign investment that financed the dot.com boom. Then from 2000 until today, the Republican Party has been the chief enabler of the Bush/Cheney catastrophe.

All of the Republican candidates except Mike Huckabee and Ron Paul are essentially asserting that economic fundamentals are sound, that everything is going to be okay, and that they will resist any attempt by the Democrats to raise taxes. They are all attempting to tar the Democrats with the age-old brush of being tax-and-spend liberals. The big lie, of course, is the fact that Reagan and Bush II were the biggest deficit spenders in history.

Of the Republican candidates, Mike Huckabee has won support by sounding themes that are vaguely populist. He has criticized the outrageously high levels of CEO compensation. He has endorsed the “Fair Tax”—a 30 percent sales tax to replace most other taxes. Of course sales taxes are regressive and take a larger proportion of income of the poor and middle class than of the wealthy. This essentially lets rich people who save or invest off scot-free from contributing to common social expenses.

No doubt the Republican candidates find some comfort in the realization that it is extremely

unlikely that any of them will actually be elected president so will ever have to deal with the economic problems their ideological purity allows them to deny. If they do have moments where they believe they may sometimes reside in the White House, they no doubt realize that as with Bush II, the Middle East wars give them plenty of excuses for fiscal profligacy and continued neglect of domestic issues.

Ron Paul

Ron Paul represents an interesting political phenomenon. Identified with the Libertarian movement, Ron Paul is certainly to be commended for his steadfast opposition to the Iraq war and for calling for the abolishment of the Federal Reserve as an inflation-causing mechanism of the financial elite.

But while Ron Paul favors limited government and the elimination of the federal income tax—both worthy objectives—he does not explain how the federal expenditures which form a majority of the budget—Social Security, Medicare, Medicaid—can be paid for.

Nor does he explain how the jobs created by federal expenditures—including those within the military-industrial complex—will be replaced by the private sector.

The number one economic issue of the modern industrial age is income security. Would Ron Paul's Libertarian ideology of pure laissez-faire economics provide it, even if there were no Federal Reserve System to facilitate financial bubbles? The answer is clearly no, for the reasons which both Douglas and Keynes explained. Libertarian economics does not address, and has never even recognized, the price vs. purchasing power gap. It swallows Say's Law in its entirety. The Libertarians do not understand and do not want to understand modern industrial economics. Their own brand of laissez-faire is as fundamentalist and ideological as the big-government paradigm they criticize.

But the Libertarians do possess an important piece of the big picture. It would in fact be much better if government collectivism stayed out of private sector production and stopped robbing people of their substance through high levels of taxation. In fact, Social Credit and Libertarian economics could make a workable fit. But to achieve that fit, Ron Paul and his followers would have to abandon the flawed notion of a currency based on gold and silver. In insisting on such a currency, Paul resembles, more than any other political figure, Andrew Jackson, whose 1836 Specie Circular plunged the nation into a depression by requiring that individuals purchasing federal land pay for it with metallic currency. Such a currency today would so sharply reduce money and credit in circulation that the greatest economic depression in history would take place.

The concepts of smaller government and lower taxes essentially belong to classical economics. But what we have gotten instead is a debt-based currency emanating from a central banking system that seeks to generate growth by blowing asset bubbles. Another factor the Libertarians ignore is the creation and management of public infrastructure which in a modern industrial economy accounts for up to fifty percent of economic activity. To finance this through taxes and borrowing, as is done today, is sheer lunacy. Infrastructure and heavy industry alike actually work best as a regulated cartel. If we had a well-run system, government infrastructure investment would be directly funded by grants of money to state and local governments based on debit entries in a national infrastructure account. Heavy industry would be financed through the capital markets and retained earnings, with price support assistance from a Social Credit program to allow consumers to purchase what

they needed at reasonable cost. The most efficient system is not the dog-eat-dog capitalism of Ayn Rand's *Atlas Shrugged* where business becomes a weapon reflecting Hobbes's "war of each against all" or is played as a financial gambling chip like what Enron did to the energy industry. Laissez-faire or Libertarian capitalism applied to those elements of the economy that should be cartelized or regulated is a really bad idea.

Nor would Ron Paul's program the existence of the gigantic and growing national and international underclass. It would not address the failure of modern economics to deliver the leisure dividend which should have been the birthright of everyone in the world.

## The Democrats

All the Democratic candidates are mouthing populist rhetoric, though the least populist and most pro-business is Hillary Clinton. The most populist of the top three is John Edwards. Barack Obama has spoken to his own vision of the American dream where equality of opportunity is a reality. But he has offered no viable prescription for getting there. The only candidate with a truly populist record is Dennis Kucinich, but his campaign appears over, if it ever really began. Biden and Dodd have dropped out, and Richardson does not appear to have anything new to offer.

## Hillary Clinton

A November 19, 2007, story in *Time* written by Joe Klein outlined Hillary Clinton's proposals. Klein cited "health care and energy" as the "big domestic-policy issues." Clinton favors single-payer universal health care coverage, but this position is a no-brainer for a Democratic candidate in a nation whose health care system is a world-class disgrace.

Clinton does have a modest energy-independence proposal based largely on conservation, but one which will have little effect on undoing the catastrophic consequences of the decisions made in the 1970s to tie America's energy future to Mideast oil. Clinton has also telegraphed the necessity to raise taxes by proposing to make the rich pay more of their fair share, but she opposes Obama's idea of extending the Social Security payroll tax to incomes exceeding \$95,000.

Also in November Clinton delivered a speech to the Economic Club of Chicago that invoked the need to "strengthen the middle class" by "incentivising" investment in research and manufacturing. The purpose would be to provide jobs, particularly in high-tech areas, a strategy identical to that of Gordon Brown who has succeeded Tony Blair as Britain's Labour Party prime minister. Clinton tried to make this smattering of government interventionism palatable to political conservatives by stating that it would provide us "with strategic security." She asked, "Do we really want the production of high-tech components of our satellites, our missiles, our planes to be completely out of our hands?"

Clinton touched on the problem of the huge federal deficit being floated by foreign governments by saying, "I'm concerned that countries like China have so much control over our financial future." She proposed resolving the crisis by stating, "I think a return to fiscal discipline, living within our means, is essential for our long-term health...It is also critical to whether or not we control our destiny as a nation."

In other words, Hillary Clinton's platform is identical to that of her husband Bill's governing ideology during the 1990s. Bill Clinton, with help from Vice President Al Gore's "Reinventing

Government” initiative, slashed the federal payroll and created job growth through the dot.com bubble which was engineered by Secretary of the Treasury Robert Rubin’s strong dollar policy that attracted massive foreign investment. Meanwhile the Clinton administration continued to oversee the loss of American manufacturing jobs through free trade programs like NAFTA, with much of the economic growth taking place in the financial industry. It all ended with the stock market crash of 2000 and the recession of 2000-2003 which the Federal Reserve under Alan Greenspan attacked by yet another bubble—the housing one.

The Clintons belong to the element of the Democratic Party which believes government should provide a modest degree of security to ordinary citizens through a commitment to such social programs as the Earned Income Credit but that its primary purpose is to get out of the way so big business can flourish. Again the goal of the strategy is to create jobs. Thus the Clintons, along with that part of the Democratic Party allied with the Democratic Leadership Council, fully embrace the ideology of Reaganite trickle-down economics. They are in fact supply-siders and so are subject to the same misunderstandings and failings of all the other laissez-faire proponents of free-market capitalism who have believed in the fallacies of Say’s Law.

All this was likely why in an October 5th interview conducted by Lloyd Grove of Portfolio magazine, Lynn Forester de Rothschild, the American wife of Britain’s Sir Evelyn Rothschild, said, when asked by Grove if Clinton will be “good for business,” replied, “First of all, Hillary will be good for America. And so if we care about our country—which all of my fellow capitalists do—we’ll be very pleased that she’s president.”

The problem is that the Clinton program has no answer for the calamitous levels of public, private, and business debt that have grown exponentially in the last decade and are symptomatic of the larger tragedy of capitalism in the modern age.

## Barack Obama

Obama has presented an upbeat message of hope and opportunity that focuses on broad-spectrum improvement in public education, health care, government ethics, economic growth, job creation, support for working families, and bringing the Iraq War to an end. He expressed these ideals most forcefully in his November 7, 2007, speech in Bettendorf, Iowa: “Reclaiming the American Dream”

Obama has the benefit of extensive cash resources and the prestige of a Senate seat that have allowed him to pull together a staff of policy experts to research and present a smorgasbord of policy proposals. These do not take us back to the New Deal but are in the more recent liberal/activist tradition of the Democratic Party and its approach to the welfare state which seeks to preserve some semblance of the social safety net while leaving it to the private sector economy to create jobs. In other words, Obama’s approach is not all that different from Hillary Clinton’s.

The following quotes from various experts taken from the internet characterize Obama’s proposals and the reactions to them among liberal commentators. Note that nowhere does Obama challenge financial system fundamentals or address the onrushing economic crisis which threatens to plunge the nation into deep recession in 2008. Rather he seems to assume a static-state economy that will continue to have the ability to fund the tinkering around the periphery that he is advocating.

“Senator Obama has a deep understanding of what has gone wrong for working families in America. More importantly, he has fresh new ideas for how to put these families back on track and how to make government policies work for them.” (Elizabeth Warren, Leo Gottlieb Professor of Law, Harvard Law School; Author, *The Two-Income Trap: Why Middle Class Mothers and Fathers are Going Broke*)

“‘The Agenda to Reclaim the American Dream’ shows that Barack Obama understands the pressures facing working families and that he has a bold but achievable vision to address them. Working women in particular — especially those juggling a job and family responsibilities — will welcome this plan to help with education, housing and health cost; paid sick and family leave, and retirement security. Senator Obama has not only put forth a remarkable blueprint for change, I am confident he has the consensus-building skills to get it enacted.” (Jan Schakowsky, Member of Congress, D-IL)

“The Senator has highlighted the very real challenges that millions of middle class families confront every day. Real earnings for most Americans are stagnant, home foreclosures are soaring, millions are without health insurance, rising tuition is placing a college education for our children beyond many families’ reach and retirement security has become elusive. The proposals in this plan represent balanced and sensible steps toward restoring broadly shared prosperity for American workers and their families.” (Edward Montgomery, Dean, University of Maryland; former Acting Deputy Secretary and Deputy Secretary of United States Department of Labor; former Chief Economist, Department of Labor)

“Many American workers, even those with good jobs, are saving little or nothing for retirement. Previous attempts by the federal government to encourage savings have led to tax incentives such as IRAs and 401(k)s, which have not been very successful at reaching the working class. For financial incentives to be effective they must be accompanied by structural changes that make it easier for the working poor to get started saving and simple to keep it up. By far the most effective way to save is to have a portion of every paycheck automatically deposited into a retirement savings plan. A simple way to achieve this is to automatically enroll workers into a savings plan from which they are free to opt out. Automatic enrollment dramatically increases participation rates, especially for lower income workers. The Obama plan utilizes this strategy, and would make the benefits of automatic enrollment available to nearly all American workers. The plan is smart and cost effective.” (Richard Thaler, Professor of Behavioral Science and Economics, University of Chicago Graduate School of Business; co-author, *Nudge: The Gentle Power of Choice Architecture*)

“Barack Obama’s American Dream agenda reminds us that terrorism isn’t the only threat to America’s working families. Health care crises, foreclosures, bankruptcy, unaffordable college tuitions, and the competing demands of work and family pose significant risks to millions of workers’ economic security. The Obama plan will help to give every working family an opportunity to increase his or her family’s standard of living and, at a minimum, secure its place in the middle class. This is a plan that will make American workers more productive and provide working families the help they sorely need.” (Seth Harris, Professor and Director, Labor & Employment Law Programs, New York Law School; former Counselor and Senior Advisor to the Secretary of Labor and former Acting Assistant Secretary for Policy and Deputy Assistant Secretary for Policy, U.S. Department of Labor)

“Barack Obama has put forth a plan that boldly addresses the economic insecurity that many Americans are experiencing. Specifically, it builds on our progressive tax code to



provide incentives and financial support consistent with the aspirations that Americans hold. Further, it ensures that consumers have both access and the information they need to make smart financial choices about credit and don't have the rug pulled out from underneath them by predatory financial firms." (David Marzhal, Executive Director, Center for Economic Progress)

"Because they are complex and poorly targeted, existing tax subsidies for higher education and retirement saving are failing to provide middle class families with the support they need. Sen. Obama's bold proposal to simplify the financial aid application process and make education tax credits fully refundable will enable millions of additional youth to enroll in college and gain the skills that will lead to higher wage jobs. Obama's proposals for automatic workplace pensions and an expanded Saver's Credit will help tens of millions of middle class families begin to accumulate retirement wealth. For too long Democrats have been content to propose narrowly targeted tax credits that sound good in sound bites, but fall short of the comprehensive policy solutions that American families need. These two Obama proposals are the real deal." (Jeffrey Liebman, Malcolm Wiener Professor of Public Policy, Harvard University; former Special Assistant to the President for Economic Policy)

So could real change be expected under an Obama presidency? This is not a question that can easily be answered. There seems to be at least a possibility that when confronted with crisis Obama may have the personal qualities and ability to think independently needed to break away from conventional responses. Of course this may be one reason the political establishment may do everything it can to keep Obama from ever being elected.

John Edwards

Former Senator and 2004 vice-presidential candidate John Edwards is the only viable Democratic candidate for president who has taken a hard look at the economic system and pointed to how deeply flawed it really is. Edwards states that worldwide the system has created a global society of haves and have-nots which is reflected in intractable and growing poverty in the U.S. His rhetoric has become increasingly anti-big business. Part of his prescription is a massive jobs-creation program. He is unique in that he favors the creation of a trust fund for children similar to one that has begun in Great Britain that will help kids with educational expenses and to get a decent start on adult life.

Even though Edwards has made a credible showing in the three-way race with Hillary Clinton and Barack Obama, he is receiving little attention from the mainstream media. It seems to be assumed that as the primaries continue he will fade then disappear. Of the three, he clearly poses the greatest potential threat to the hegemony of the financial elite.

Edwards' most complete explanation of his positions took place in a May 25, 2005, speech he gave at the London School of Economics. Following are some quotations:

"Today, with the new global challenges we face, we have storms gathering...It is the job of our leaders — and it is job for all of us — to understand these challenges and to prepare for them.

"For example, right now, we see new global players emerging. Some historians refer to the last century as the 'American Century.' The 21st century could very well belong to Asia. China and India aim to win a race to the top — not simply to take our low paying jobs.

“Some believe that China’s Gross National Product will soon surpass all other countries except America’s. India’s will grow at a similar pace.

“China and India’s rise on the global economy — and their emergence as more prominent diplomatic and military powers — will have a profound impact on America, Britain, the European Union, and Transatlantic relations.

“I don’t think that we have even begun to understand its consequences.

“We also have not fully grasped the changes that come from the spread of information technologies. Thanks to new technology and the power of knowledge the world will keep shrinking.

“But globalization also brings tremendous challenges.

“For example, how do we ensure that the great divide between the ‘haves’ and the ‘have nots’ starts to close? How do we lead so that developing countries understand that education, market reforms, and just governments will bring hope to even the most desperate places?

“And in our world of such wealth and promise, we cannot forget another great challenge: extreme poverty.

“Close to half the world’s population — more than three billion people live on less than \$2 a day. How do we address this unthinkable human suffering? How do we win the hearts and minds of young people — the millions struggling in Africa, or those young orphans from the tsunami? How do we reach them so they know they can climb out of hopelessness and into a better life?

“The time has come for all of us to fight global poverty...

“In my country, we must reform our own education system. Rising tuitions are increasingly putting a college degree out of reach for many families. Fewer and fewer low-income students are attending our universities. We need to reform our student aid programs, cut subsidies flowing to banks, and ensure that every child who works hard can attend their first year of college for free. No one should be shut out in America from an education they need because they can’t afford it.

“Another great threat to our competitiveness is health care. America has some of the best health care in the world. But the 46 million uninsured people and the skyrocketing health care costs are putting our companies at a disadvantage.

“Just look at how much health care adds to the cost of building an American car — \$1,400 per car. In Japan, it’s about \$600. That’s just one reason why it’s time to make health care affordable and available to every American.

“And it is imperative that our countries get our fiscal houses in order. Living in deficit isn’t good for families, and it isn’t good for governments.

“It diminishes our independence and our economic security when we are dependent on other nations like China to buy our debt. Right now, China has purchased nearly \$300 billion of America’s debt. These low-interest loans have made the impact of our historic budget

deficit minimal — for now.

“When China changes its policies, it could have a devastating effect on our economy. Interest rates could rise. Consumer spending could drop. And those high interest rates could mean people can’t afford their homes anymore...

“Budget deficits make America less competitive. There’s less money to invest in innovation and research and meet the challenges of education and health care. And there’s more risk when we rely on another country for economic security.

“So we must balance our budgets to compete...

“America is widely known as the richest country in the world. But few realize that 25 percent of our people live in poverty or at the margins...the best evidence of America not living up to its ideals is the more than 36 million Americans who live in poverty every day.

“There are children who have no real hope simply because of where they’re growing up. There are people who are working two jobs and they still can’t make the rent. And too many families will spend the night in homeless shelters across the country.

“...That is why it is critical for us to ensure that our children have the education they need to compete and thrive in this new world. That our societies have the capability to help everyone — not just those at the top, but those who are struggling. That there is capital for our new inventors and dreamers, and they can access it.

“In a nation of our wealth and our prosperity, to have millions working full time and living in poverty is not just bad economic policy. It’s wrong. They are doing everything right and they’re still struggling.

“I am asking the American people to do a few things to help eradicate poverty in America. Many of them resemble steps that Tony Blair and Gordon Brown have pursued here.

“First, let’s shine a bright light on this problem. Let’s talk about it again. Good people from all different backgrounds and beliefs care about this issue. And we need to put this back on the agenda.

“Second, let’s make work pay again.

“What we know and understand in our soul is that hard work built our nations. Men and women who worked with their hands and their heads — who still do — they don’t want a free ride; they want a fair chance.

“That’s why we’re fighting to raise the minimum wage in our country. And we should expand the Earned Income Tax credit — much as your [i.e., the British] government has done with the Working Tax Credit...let’s strengthen the foundation for families that work. That means health care for everyone and child care for parents who need it...let’s make sure that families aren’t just getting by — but getting ahead. Let’s provide them with the assets they need to build a better life.

“Britain has led the way with the Child Trust Funds. We ought to consider the same thing in America — providing \$500 to every child at birth, and perhaps an additional \$500 for lower-income families.

"If parents could contribute too, then the time a child turned 18 years old, they could have as much as \$40,000 in the bank. Money to spend on college or a home, or money to store up for retirement.

"Imagine what it would say to a poor boy growing up in my home state of North Carolina. If he knew that if he studied hard. He stayed in school. Then he would have \$20 or \$30 or \$40 thousand dollars in the bank when he turned 18. Imagine what it would do to his sense of hope and possibility for the future. It could change whole communities.

"So there are very real and fundamental ways in which we can prevent families from falling into poverty. And this is the work I am engaged in at the Center on Poverty, Work, and Opportunity at the University of North Carolina.

"So far, my efforts through this Center have focused on fighting poverty in America. But I also believe that an essential part of all our efforts will be to carry this fight to end extreme poverty around the world."

What is the centerpiece of Edwards' message? Columnist David Sirota wrote that Edwards "is offering a courageous, full-throated indictment of Big Money.... Edwards says that 'powerful interests, particularly corporate interests, have literally taken over this government.' And Edwards hasn't just been talking about it - he has made a crusade against this, the issue of our day, the centerpiece of his campaign. He has, in short, made it the very reason he is running."

Recently *The Huffington Post* asked a number of commentators: "Is John Edwards' presidential campaign the test of progressive populism that Democratic activists have long awaited?" The answers were equivocal, exposing doubts that the populist approach will succeed or even matters. Among the answers were:

Bob Borosage, Campaign for America's Future:

"Edwards' frustration is that he can't be a legitimate test, he hasn't been able to establish himself as the populist voice. Why? One reason is the simple historic nature of the Hillary, Obama campaigns - Hillary's growing gender gap is proof positive of that.

"Second, perhaps more important, is simply to listen to Hillary's rhetoric. New energy resources and taking on the big oil companies. Health care and taking on the insurance companies. Economics and making this economy work for working people. The speech that most mirrored the AFL-CIO/EPI/CAF rhetoric on economy, ironically, was delivered by Hillary at Dartmouth....

"[In] this election, with Hillary presenting herself as a populist, willing to take on the big interests (and her rhetoric is the reason that she's relatively 'tefloned' against Edwards' attacks on her) - I'd say Dems are getting a lot closer to where they should be - at least rhetorically....No doubt, money is buying into Democrats big time, and the party will have to decide whether its going back to the mid-70s compromise - socially liberal and economically Wall Street....So I'd argue that Edwards' fate isn't a proper measure, because most candidates - Hillary certainly - have moved to co-opt [populist] rhetoric."

Al From, Democratic Leadership Council (DLC):

"The Clinton-New Democrat formula is the only formula with a track record of winning both the nomination and the general election. The track record in recent elections shows that the populist formula doesn't really deliver the very voters it's aimed at – white male, working-class voters – probably because they are the most skeptical of government delivering on its promises.

"Clinton economics brought a lot of those voters – including union members – back to the Democrats because it worked, grew the economy, created jobs, and increased incomes. But the three principal elements of Clintonomics – fiscal discipline (balancing the budget), investment in people and technology, and expanding markets overseas – were opposed by the leaders of organized labor and the populist forces in the party...."

Paul Krugman, *New York Times*:

"The candidates are all much more progressive/populist than anyone would have imagined a couple of years ago. Edwards tends to come up with the policy proposal first, but he's eventually emulated by the others — and you have to be a serious political groupie to be in the business of inferring positions not from the policies, but by which month they're announced in. Basically, nobody is running on the pro-business, anti-class-warfare platform. We're all populists now."

Lawrence Mishel, Economic Policy Institute:

"So, one problem Edwards has is that the whole debate has moved leftward."

Matt Yglesias, *Atlantic Monthly*:

"Even though Edwards is running a more populist campaign than are HRC or Obama, HRC and Obama are both running more populist campaigns than we saw from Kerry in 2004 (or, for that matter, from Edwards or Dean) or for Gore in 2000. Whoever wins the nomination will be an advocate of universal health care and all three are running on platforms that at least 'sound' very different from the 'free trade and balanced budgets' mantra from back in the day. Hillary Clinton gave a speech about the evils of economic inequality back in May. So, arguably, no matter what the fate of the Edwards campaign, the populist side is winning the argument."

Despite the mixed reviews of Edwards' campaign and the doubts about his ability to win the nomination, most commentators indicate that a populist message is defining the 2008 campaign on the Democratic side.

Dennis Kucinich

The Democratic candidate with the most far-reaching program of economic change has been Dennis Kucinich. He has spoken for a "New Deal for the 21st Century," has argued for a program of federal job-creation similar to the New Deal Works Progress Administration, and has sponsored legislation on the creation of a new Federal Infrastructure Modernization Bank similar in principle to the New Deal Reconstruction Finance Corporation.

Kucinich is familiar with concepts of monetary reform, has endorsed the reformist work of



the American Monetary Institute, and has been the featured speaker at AMI conventions. His young British wife Elizabeth, a former AMI staffer, virtually grew up in the monetary reform movement which in Britain was steeped in Social Credit concepts. Kucinich has sought the advice of the leading voices in the monetary reform movement, including that of well-known monetary economist Michael Hudson. Tax reformer David Kelley, who argues forcefully for the restoration of a true progressive income tax where the rich pay their fair share, is the head of his economics team.

Yet Kucinich's 2008 presidential campaign has failed to make a ripple. In Iowa he transferred his meager support in the caucuses to Obama and won only two percent of the vote in New Hampshire. Part of the problem, of course, is that he has been ignored by the mainstream media or attacked as an eccentric or even a socialist. Many of his positions, including his steadfast opposition to the Iraq War, have been preempted by the other candidates with their own populist rhetoric mentioned so often in this article. But Kucinich himself has shown a puzzling reluctance to package his economic ideas into a coherent and comprehensive call for fundamental change.

Yet Kucinich has played an important, if behind-the-scenes, role as a voice of conscience within a Democratic Party that has strayed far from its Jefferson-Jackson-Roosevelt roots. He may be the only true New Dealer in Congress. And in a future Democratic administration Kucinich could play a formidable role in a Cabinet-level position such as Secretary of Labor. Perhaps he may yet have a key role to play in the future prospects of economic reform in the U.S.

## Conclusion

In rejecting the damage done to the U.S. under the Bush-Cheney administration over the past seven years, the U.S. remains a nation in search of its soul. Much of the outcome will depend on the attitude people ultimately take toward the capitalist economic system. For people to make an idol out of unbridled capitalism is the height of madness, but this is what has happened in the last generation. Yet more people are realizing that capitalism as an all-inclusive system for financing a modern producing national economy may produce an abundance of material goods but by itself fails to meet the array of real human needs. Capitalism is a method of financing private sector production, mainly for consumer products, but really is nothing more than that.

The financial elite have hidden behind the productivity of capitalism for their own self-serving purposes. The elite have taken advantage of a historical ideological proclivity toward a laissez-faire philosophy by asserting that bankers, along with industrialists, should be left alone to function in the marketplace. This is a gross error. Finance capitalism is taking what should be a public utility—credit—and usurping what really belongs to the body politic. It uses this utility to enrich itself to the detriment of everyone in society. As indicated earlier, Big Finance is in fact a protection and loan-sharking racket that has been stolen from "We the People" through the agency of weak, ignorant, and dishonest politicians.

Private sector activity, moreover, should only be one leg of a functioning modern economy. The other leg should be public expenditures for infrastructure, income security, regulatory activities, etc. This may be called "socialism" for want of a better word. It should be clear to all that a truly functioning modern nation includes both capitalistic and socialistic elements. Capitalism operates in a marketplace. Banking, under the "real bills" doctrine should be limited to facilitating commercial operations.

The system should function so as to benefit the entire nation and community of nations. While the private sector marketplace will naturally result in some disparity of income, that disparity should be balanced by the general welfare aspects of the public sector. And funding for the public sector should not take place by dependence on the private sector.

Instead, other funding sources that draw on the natural credit of the nation should be used. This may include direct spending of money into circulation without recourse to borrowing or taxation, as was done with the Civil War greenbacks, or self-financing government lending and grants for infrastructure construction, operations, and maintenance.

Finally, in a highly performing economy there should be direct payment of money to individuals in the form of a National Dividend. If the economy does not perform sufficiently to provide a National Dividend at a living wage, then there should be a basic income guarantee paid for by taxes. These measures will lead to a stable economy. There will be no more need for a war machine to exploit and dominate the rest of the world. It will also allow for public and private expenditure to mitigate pollution and ensure public safety in the face of natural disasters.

The United States came out of World War II in a position to lead the world in so many ways. In the last generation, starting with Reagan administration policies as a mistaken response to the economic chaos of the 1970s, we have squandered that status. Is the 2008 election the nation's last chance to regain what has been lost, or will this opportunity be squandered as well? Only time will tell.

There is, however, a touchstone that can be used to evaluate the contenders for the presidency from this point onward until the November election.

It has been argued in this article that the root cause of the nation's economic woes is a debt-based monetary system. Therefore the first measure that should be taken after a new president is inaugurated is to introduce a new influx of purchasing power into the economy that is not tied to debt. In an earlier article in this series, the author stated that according to his calculations derived from publicly-available economic data for 2006, the government should have paid a \$12,600 cash dividend that year, on average, to everyone in the U.S. This National Dividend should be paid out of a self-capitalized dividend account not tied to government taxation or borrowing.

On January 21, 2009, during his or her first day in office, the new president should send emergency legislation to Congress that would direct the U.S. Treasury Department to make a \$12,600 tax-free payment to or on behalf of each U.S. resident. Similar measures should be enacted in all other nations. This alone would break the back of the onrushing economic crisis by undercutting the crushing burden of unnecessary debt that is destroying the world.

*Richard C. Cook is a retired U.S. federal government analyst, whose career included service with the U.S. Civil Service Commission, the Food and Drug Administration, the Carter White House, and NASA, followed by twenty-one years with the U.S. Treasury Department. His articles on economics, politics, and space policy have appeared on numerous websites, and he is cited in the Wikipedia article on "Economic Democracy" as one of the world's leading monetary reformers. His book on monetary reform entitled We Hold These Truths is in preparation. He is also the author of Challenger Revealed: An Insider's Account of How the Reagan Administration Caused the Greatest Tragedy of the Space Age, called by one*

reviewer, "the most important spaceflight book of the last twenty years." His website is at [www.richardccook.com](http://www.richardccook.com).

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