How to Save the U.S. Economy

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The crashing stock market has given its verdict. The financial rescue plan currently being implemented by the U.S. Treasury Department and the Federal Reserve System will fail to revitalize the producing economy, even with continued interest rate cuts. This is because the banking system is essentially a supply-side, trickle-down mechanism with a currency based on a pyramid of bank lending and debt. All the current plans being suggested by economists and others to save the financial system by varying degrees of tinkering are useless. Similarly useless is the pumping in of credit or liquidity by Treasury or the Federal Reserve because it is no more than new debt to roll over old debt.

The cause of the financial failure is that the producing and consumer economy is "maxed out" and is *unable* to repay existing loans much less new ones. *This is because purchasing power in the U.S. has collapsed.*

Purchasing power has collapsed not only because we have outsourced our industry abroad and allowed our infrastructure to crumble, but also because of structural defects identified decades ago by C.H. Douglas and John Maynard Keynes. These defects occur due to the need for retained earnings (i.e. savings) to overcome the Law of Diminishing Returns. This leads to insufficient aggregate demand; i.e., the gap between prices and purchasing power that is endemic in an industrial economy.

The problem is *not* the collapse of the stock market which simply reflects the deflation of the bubble economy. The problem is the oncoming recession/depression caused by the absence of an economic engine to generate new producing power.

Keynesian plans for top-down creation of jobs by government deficit spending has never worked and has *always* ended in an attempt by the government to inflate its way out of debt. Everything being suggested by the Obama/McCain campaigns is based on the failed Keynesian formula.

An entirely new paradigm is needed. This can be provided through *dividend-based economics* like the Alaska Permanent Fund, the 2008 tax rebate stimulus, and the basic income guarantee (negative income tax) discussed during the 1960s and 1970s.

Following is the "Cook Plan":

1. Non-taxable vouchers should be issued at the rate of $1,000 per month per adult and $500 per month per child which may be used for food, housing, fuel, communications media, utilities, and educational services provided at outlets within the U.S. Distribution of vouchers may be delegated to state and local governments.

2. Vouchers will be deposited by service providers and vendors *only* in a new network of local chartered savings banks—one for each county in the U.S. Deposits will be made to the bank in the county of the local point-of-sale.

3. Banks will lend locally at zero-percent interest using voucher deposits as capitalization. The banks may create loans at a 1:10 reserve ratio with borrowers paying administrative fees only. Borrowers must provide a 20% down payment as collateral *or* purchase default insurance at 2% of the loan principal.

4. Lending will be made only to business entities, including family or commercial farms, operating from an established location within the county.

This system will create a grassroots "bottom-up" economic infrastructure to parallel the "top-down" Federal Reserve System which is collapsing. Transfers between local savings banks and the banks of the Federal Reserve System will be denominated in U.S. dollars with vouchers redeemed within the banking system.

The system could be implemented within a matter of *weeks* through seed-money provided by the federal government. It could be replicated by any other nation.

It is requested that readers give this plan the widest possible distribution.

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