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Poverty in America.

Progressive Schemes to Reduce Poverty will Fail without Monetary Reform

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The Center for American Progress, a think tank headed by John D. Podesta, President Bill Clinton's chief of staff, has come up with a plan it says would reduce poverty by half over the next decade. But as with other progressive schemes being floated in anticipation of the possible election of a Democrat as president in 2008, the plan doesn't even come close to addressing the real causes and consequences of a national catastrophe.

The study came after the government reported that thirty-seven million people are living below the official poverty threshold of $19,971 a year for a family of four. This is one out of every eight Americans.

Bob Herbert of the New York Times, in commenting on the study, wrote that in addition to those in poverty, "More than ninety million Americans, close to a third of the entire population, are struggling to make ends meet on incomes that are less than twice the official poverty line. In my book, they're poor."

He added, "…The number of poor people in America has increased by five million over the past six years, and the gap between rich and poor has grown to historic proportions. The richest one percent of Americans got nearly twenty percent of the nation's income in 2005, while the poorest twenty percent could collectively garner only a measly 3.4 percent."

Poverty in the U.S. has grown tragically since George W. Bush became president. It is a spreading national scourge among all races and even more so in center cities, rural areas, and on Indian reservations.

To understand what we could be doing about it, let's look at history. There was a time when the need to overcome poverty was something politicians and economists took seriously.

By the late 1950s, the robust economy we'd inherited from the World War II era was slipping. By 1963 jobs had started to come back from a recession through President John F. Kennedy's tax policies, but poverty was still recognized as a major national problem.

After JFK was assassinated, President Lyndon B. Johnson's War on Poverty led to a host of programs that would eventually include Medicare, Medicaid, Food Stamps, Aid to Families with Dependent Children, and others. Added to Social Security, these entitlements would eventually consume half the federal budget.

What the government failed to do was enact a basic income guarantee for all citizens. Free-market economist Milton Friedman had recommended a negative income tax in his 1962 book "Capitalism and Freedom," and in 1967 a National Commission on Guaranteed

Incomes confirmed the idea. In 1969, President Richard Nixon announced a Family Assistance Plan that would pay $1,800 a year to any family of four with no outside earnings. The program passed the House of Representatives with two-thirds of the vote but was rejected by the conservatives who controlled the Senate.

This was the high water mark for any serious effort to eliminate poverty altogether by action at the national level, though it helped when in 1975 tax policy was changed with the Earned Income Tax Credit for lower income working families. But after the conservative shift that came with the election of Ronald Reagan as president in 1980, the emphasis became one of looking exclusively toward the private sector to deal with income issues.

It was the time of trickle-down economics. The Reagan supply-side tax cuts for the upper brackets were supposed to produce jobs that would benefit workers at all income levels. Market fundamentalists said the tax cuts would "lift all boats" and that deregulation of the financial industry would produce an "ownership society" that would benefit everyone.

It didn't work. The U.S. economy had been devastated by the recession of 1979-83 when our manufacturing infrastructure was shattered by the Federal Reserve's skyrocketing interest rates causing unemployment to shoot up by sixty-five percent in four years. The industrial job base never came back as the "service economy" was ushered in. By the end of the 1980s the economy was in another recession, leading to the election of Bill Clinton over President George H.W. Bush in 1992.

Clinton was a new kind of Democrat who would work with the private sector to benefit working people. The investment boom of the 1990s was fueled by foreign capital lured in by the Treasury's strong dollar policies. Jobs were created as the dot.com bubble expanded, trade barriers fell, and utility trading giants like Enron took off. NAFTA was enacted to promote free trade, welfare-to-work brought low-income women into the job market, and the Earned Income Tax Credit was extended.

The party ended when the stock market crashed in December 2000 and millions of people lost their retirement savings and other investments. Recession was returning even as George W. Bush was being declared president by the U.S. Supreme Court in December 2000. The economic crisis deepened after the September 11, 2001, attacks when $1.4 trillion in wealth vanished during the worst five days of the stock market since the Great Depression.

Today, poverty is becoming a national catastrophe even while the highest income brackets prosper. From 2002 through 2006 the economy was floated by the housing bubble, with many lower income people getting into homes of their own through the proliferation of subprime mortgages.

But that market is crashing now too, leaving much of the nation with inflated home prices and no way to pay for them. Despite low official unemployment numbers from service economy jobs, continued manufacturing decline and a huge per capita debt load are contributing to a slippage of real family disposable income not seen in decades. And most politicians no longer seem to care.

So would the recommendations of the Center for American Progress change any of this? Absolutely not.

The first provision, as stated in Herbert's New York Times report, is that, "The task force recommended that the federal minimum wage, now $5.15 an hour, be raised to half the average hourly wage in the U.S., which would bring it to $8.40."

Next, "The earned-income tax credit, which has proved very successful in supplementing the earnings of low-wage working families, should be expanded to cover more workers. [The report] also recommended expanded coverage of the federal child care tax credit, which is currently $1,000 per child for up to three children."

Next would be "an all-out effort to ensure that workers are allowed to form unions and bargain collectively."

Other recommendations include "proposals to ease access to higher education for poor youngsters, to help former prisoners find employment, to develop a more equitable unemployment compensation system, and to establish housing policies that would make it easier for poor people to move from neighborhoods of concentrated poverty to areas with better employment opportunities and higher-quality public services."

The proposal with the greatest impact would be to raise the minimum wage. Of course no one could argue with that—it's shamefully low at present. But the idea is a little too glib, because the burden would fall mainly on small businesses such as fast-food restaurants.

These would likely respond by cutting the total number of jobs or by passing on the costs to consumers—many of them poor—through higher prices. Raising the minimum wage should be done, but even when earning $8.40 an hour, a person is poor. The measure would provide no help at all to the unemployed or the homeless.

What these recommendations fail to do, moreover, is address any of the causes of poverty.

The first problem is a chronic deficiency in purchasing power that is created within an advanced economic system by the fact that wages, salaries, and dividends paid to employees and shareholders never come close to matching all of the factors that contribute to the pricing of products. The causes of this imbalance are complex but center around the need for corporations to retain earnings and provide for their infrastructure and maintenance in ways that are never paid out to wage and salary earners.

The existence of this imbalance has been known for decades. On a macroeconomic scale attempts have been made to compensate by a positive foreign trade balance, economic growth policies, or even deliberate, and probably unconstitutional, government efforts to devalue/inflate the currency.

Both Keynesian economic policy, a result of which was World War II, and the "free-market" monetarism that replaced it in the 1970s were failed attempts to rebalance an inherently unstable economic fact-of-life. Today, now that everything else has failed, the imbalance is being addressed only through borrowing by consumers to purchase the necessities of life. Borrowing is what people, businesses, and governments are increasingly forced to do, resulting in a total societal debt burden of over $48 trillion.

But the borrowing has its own cost—bank interest charges. Economists and politicians don't say so, but it is the transfer of wealth through interest charges from the people who work to those who lend money that is a major cause of the growing poverty.

The borrow-in-order-to-live syndrome ultimately makes the bankers and financiers rich but impoverishes the rest of the nation, with the burden falling most heavily on those who are already poor, unable to work, or discriminated against. The most rapidly growing and profitable industry in America today is the financial one which furnishes the loans people need just to survive.

Particularly devastating to the poor is predatory lending at high interest rates which has become a major problem in low-income urban areas. Much of the already low incomes of the poor and the working poor is paid as interest to providers of payday loans, check cashing, and other financial services.

Chain stores also suck cash out of neighborhoods without replacing it with adequate employment. Inflated rents to usually absentee landlords do the same. The effect on the population of already depressed localities where public assistance programs have been slashed may be devastating.

Also, workers everywhere suffer further as automation displaces them or as jobs are shipped overseas to cheaper labor markets. Again, the burden falls disproportionately on those less fortunate, including those already poor.

Jobs are not available because we buy so many of the goods we need for daily life from countries like China, which uses the dollars they earn to buy Treasury securities that float our out-of-control national debt. This is what is known as “dollar hegemony,” which works directly against our own poor and working classes who are unable to find decent work.

Further, in an advanced mechanized economy, fewer workers are needed to produce the same amount of goods. This should result in a societal “leisure dividend” but instead puts people out of work and forces them to compete for the remaining service economy jobs. There are estimates that by 2030 robots will take over fifty percent of the jobs in the U.S. economy.

Another problem is the shortage or non-existence of low cost credit needed to start and operate small businesses. There is also the escalating cost of higher education and the huge number of loans to students which saddle them with massive amounts of debt even before they start earning a living.

Meanwhile, government is unable to provide funding for meaningful anti-poverty programs because of the enormous interest on the existing national debt, the high cost of borrowing for infrastructure programs at the state and local level, the huge amount of spending on the military machine and the wars in Afghanistan and Iraq, and the already high costs of entitlement programs such as Medicare and Medicaid.

The government itself is increasingly poor, due in part to tax cuts for the rich. In fact, conservative commentators have urged that the political right-wing deliberately eviscerate the ability of government to meet social needs, and they are well on their way to doing so.

The dismal state of public finance has led to calls among economists and politicians to reduce spending on entitlements, including Social Security. The Social Security privatization scheme proposed by the Bush administration would shed government responsibility by risking people’s retirement incomes in the stock market.

Social programs for the poor are being cut further in the 2008 federal budget to pay for higher interest costs on the debt and greater military expenditures. Reduced Medicaid expenditures starting in September 2007 may even close many of the nation’s emergency rooms, making health care more expensive and less effective nationally.

While all this is going on, the people who run our financial industry, including the managers and executives of banks, brokerage firms, equity and hedge funds, etc., make millions of dollars a year and live like princes in the midst of an economy that is collapsing around them.

Much of their profits derive from derivatives, leveraged buyouts, and other forms of financial speculation in the gigantic gambling casino known as Wall Street. There are all abuses of the banking system’s fractional reserve lending privileges. This lending is capitalized by government debt, computerized “cash management” practices, and, some allege, laundering of illegal drug profits.

Finally, we may be entering a period of hyperinflation, where the purchasing power of all but the most wealthy is eroding daily. The housing bubble has affected rents along with home prices. The same is happening in commercial real estate. Gasoline prices may soon hit four dollars a gallon. We have already seen a long wave of inflation affecting health care costs. Even food prices are rising rapidly as more corn is diverted to ethanol production.

The government has concealed the real pace of inflation by manipulating the consumer price index in order to avoid increased cost-of-living allowances to retirees. This has been done through substituting lower quality products in the basket of commodities the CPI measures. Inflation is also fed by the ongoing devaluation of the dollar against foreign currencies.

Despite the official estimates, inflation has probably been exceeding ten percent annually, which, compounded, can destroy much of the producing economy in a few years. Those most at risk, again the poor, children, and elderly, suffer the most. The culmination of hyperinflation is deflation and depression.

The assault on the lower income levels in the U.S. produces stress and ill health. One response has been heavy administration by doctors of anti-depressant medication, another cost burden. Poor living conditions also result in alcoholism and illegal drug use, with their attendant social and personal costs.

All things considered, the effects of current economic and monetary policies are starting to approach the level of genocide against large segments of society, if not in their intention, at least in their effects. Crime, health, and income statistics identify vast areas of both urban and rural environments as what have aptly been called “death zones.”

The recommendations of the Center for American Progress don’t address a single one of these critical, life-threatening issues, particularly the rapid growth of unpayable debt. They propose Clinton-like solutions that have failed before, perhaps in the hope that another Clinton will be president soon and provide jobs to the progressive analysts who write such studies.

Interestingly, Hillary Clinton and the other Democratic front-runners for the 2008 nomination are raking in millions of dollars in campaign contributions from the Wall Street investment bankers, attorneys, and brokerage houses that are such a big part of the monetary problem.

Also, the growing poverty is not confined to the U.S. It is worldwide. According to the International Labor Organization, world unemployment was at an all-time high in 2006. The crushing debt load is increasing everywhere, even in developed countries like England and the other European nations.

At this point, the reader is referred to other articles by this author which have appeared recently on Global Research and other internet sites. The key to any real change is a fundamental program of monetary reform that would restore balance to the economic system.

This would involve the shifting of credit creation from the banks to the people acting through our constitutional system whereby Congress is authorized to create money and regulate its value. This should start with definition of credit as a public utility which should be controlled by central governments rather than the private financiers of the world who rule the global economy.

They do this through central banks which are actually agencies of the private monetary controllers. The banks then lend money created "out of thin air" to both to the people and their governments. The people must pay for the privilege of borrowing their own money through compound interest and heavy taxation.

It was a system born on a national scale with the Bank of England in 1694 then imposed on the United States through the Federal Reserve Act of 1913. Hand-in-hand went the Sixteenth Amendment to the Constitution and the creation of the income tax system to pay interest on the debt. The best-kept secret on earth is how easily this system could be changed, not only in the U.S. but in any nation that applied the concept of treating credit as a pubic utility.

The needed changes can be made through a program that is simple in concept though profoundly different from what we have now in its operations and effects. The two main features of this program would be as follows:

1. We should spend sufficient credit into existence to supply the basic operating expenses of government at all levels without recourse to either taxes or borrowing. At least ninety percent of all taxes could be eliminated under such a program with government services scaled back to what is essential. The only taxes that should be retained would be those in the form of user fees for infrastructure operations and maintenance. Capital expenses for infrastructure construction at the federal, state, and local levels could be financed through a self-capitalized national infrastructure bank lending at zero-interest. Operating on a national scale, such a bank could begin immediately to rebuild our manufacturing job base. Similar investment banks could easily be set up and operated by states and municipalities, capitalized by long-term public bonds.

2. The financial gap between production and purchasing power referenced at the start of this article as a problem which national economies have never really solved can and should be filled by a non-taxable National Dividend of two types. One would be a cash stipend paid to all citizens which would also serve the purpose of eliminating poverty by providing everyone with a basic income guarantee. The remainder of the National Dividend would consist of an overall pricing subsidy, whereby a designated proportion of all purchases, including

home building expenses, would be rebated to consumers. The total average National Dividend per person in the U.S. today would probably exceed $12,000 per year. It would be a calculated value charged against a government ledger but would be off-budget, with no need to finance it with taxation or borrowing.

The theory of this program derives from two principal sources. One is the worldwide National Dividend movement founded almost a century ago by Scottish engineer Major C.H. Douglas. The other is the program of monetary reform based on direct government spending set forth by groups like the American Monetary Institute in its model legislation known as the American Monetary Act, to which the author of this article has contributed.

Make no mistake about it. There is an assault on the income security of much of our population unmatched in ferocity since the days of the Robber Barons in the late 1800s. The same is happening around the world, where perhaps half the world's population is being left out of the benefits of the global economy by monetary systems run by private financiers primarily for their own benefit.

When we realize that the basic purpose of a monetary system is to deliver purchasing power to those who need it to acquire the necessities of life, it becomes obvious how badly existing practices have failed. A main reason they have failed is that modern industrial methods make it possible for the world's workforce to produce these necessities without full employment, but nations have not adopted distributive methods such as the National Dividend to compensate. The needed changes can be made only if political systems remove from the financial controllers their stranglehold on the creation of new credit.

The scheme laid out by the Center for American Progress is so weak in concept that not only will it never be enacted but it would fail to make a dent in our growing poverty if it were. It is too late in the game for band-aid approaches when the monetary fundamentals of our economy and that of the world are so destructive.

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