

“The Last Picture Show”: Obama’s Fiscal Year 2010 Budget

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Global Research, March 02, 2009

2 March 2009

Region: [USA](#)

Theme: [Global Economy](#)

[“The Last Picture Show” was a 1971 film depicting the decay of small town America . It took place in the fictitious town of Anarene , Texas .]

We hear a distant tune reminiscent of America ’s high and lonely places and the sound of a dry wind blowing. It’s March 2010 in the tiny West Texas town of Anarene . Nothing much happens here any more. The last business shut down a couple of years ago. It was a cement plant that went broke after the housing bubble burst and the banks stopped lending. The kids out of high school drive their jalopies from one end of Main Street to the other past boarded-up storefronts.

Some of the grown-ups carpool to low-wage jobs in a city 50 miles down the road. The elderly have had their Social Security eaten up by the high price of food but still get by on Spam and Kool-Aid. There used to be a movie theater, but it too closed a few months ago. Not a single person went to the “Last Picture Show.”

But there is change in the air! President Barack Obama, who was elected president a couple of years ago, is in the middle of his fiscal year 2010 budget. The 2009 budget had a deficit of \$1.75 trillion, a number no fool could even have imagined before the crash of 2008. The projection for 2010 is \$1.17 trillion, due to the government’s hopes for an economic recovery. But the jury is out on whether a recovery will ever happen.

Some say the banks are starting to lend again, though no one at the Anarene State Bank knows anything about it. Some say the city down the road is getting a plant to make blades for those new wind turbines. The Anarene high school got funding for an adult training course on writing resumes. The Nightly News says, “ America is coming back.”

I wish!

So what is really going on here?

Well, President Obama’s 2010 budget has attracted a lot of attention. \$1.75 trillion? That’s not federal spending. That’s new federal debt!

A good measure of fiscal policy is federal government tax revenues. Revenues for 2010 are projected at \$2.19 trillion, off 13 percent from a year ago, due to the recession. With the huge bank bailouts and Obama’s \$787 billion economic recovery program, 2010 expenditures are estimated at \$3.94 trillion, an increase of 33 percent over 2008.

Then there’s the interest taxpayers must pay on the national debt, which will likely reach

\$600 billion in 2010. Of course almost 100 percent of all new federal debt is financed by foreigners, mainly China .

But don't worry, the recovery program will succeed, and the economy will start growing again. THE GOVERNMENT PROMISES! Obama's budget forecasts such a strong upsurge in economic activity by the end of 2009 that the **net** for the year will be GDP growth of 1 percent. (Yes, that's what it says.)

Is it a contradiction that the government is conducting "stress tests" on the nation's banks in which it is predicting that the recession will last at least until 2011 to see if those banks are strong enough to weather the storm? Yes, it is a contradiction. Even the Federal Reserve does not see recovery coming as quickly as Obama's budget. Neither do any economists. The budget is not an honest document.

It gets worse. The budget says growth will then continue as far as the eye can see—the projections go out to 2019, when we'll have a GDP of \$22.86 trillion, 61 percent higher than 2008. Happy days will be here again!

So go back to sleep, America . It's official. The recession we are in right now will end soon and is the **last one ever**.

This means that the financial industry will soon be fixed, plenty of good jobs will be available, climate change and drought will be overcome, the government budget will be right-sized, and America and the world will be content and at peace. All because of the decisions being made by the Obama administration and approved by Congress during these few critical weeks we're in the middle of right now.

But there are a whole swarm of flies in the ointment. I'll mention just two.

One is that according to University of Massachusetts economist Thomas Ferguson, who spoke at last weekend's Eastern Economic Conference national conference in New York , the Bush/Obama bank bailouts alone will cause a permanent addition of interest payments on the national debt of \$100 billion a year **forever**. That means **every** American will pay, during the course of his or her lifetime, over \$20,000 to rescue the banks from their bad loans. To put that number in perspective, it equates to 2-1/2 years of tuition at a state university that instead will be paid to the government of China or a similar foreign investor.

Yes, America , that is what your elected government just decided you **will do**.

Another is that the U.S. has had virtually no real economic growth since the early 1970s, because since then we've lived in a bubble economy. Look it up. Most of our industrial output has been flat or has declined. Whole industries, such as steel, are shadows of their former greatness. The automobile industry is on life support. We've imported huge amounts of foreign capital by selling them our real estate and businesses. As stated on the *Economy in Crisis* website:

"The United States now no longer controls many of its domestic industries. Over the last 10 years alone foreigners have spent \$1.2 trillion to acquire more than 8,000 key US companies. Already as of 2002, foreigners owned fully 20 percent of American manufacturing. In many high-tech and defense-related industries, the proportion is far higher. Such US industries as mining, cement, publishing, engine and power transmission

equipment, rubber and plastics, and sound recording and motion pictures are now largely foreign owned. Even in industries like pharmaceuticals, chemicals, industrial machinery, transportation equipment, electronics, metal industries, and coal and petroleum industries, foreign ownership has recently become very high.”

Until the last year, the biggest growth industry within the U.S. had been the financial sector, producing profits of over \$500 billion as late as 2006. In other words, the U.S. has replaced working for a living with the manipulation of money and the extraction of interest, either by lending it or by brokering the lending and investment by foreigners. In order to enrich themselves, the financiers, with a lot of help from the government, created the merger/buyout bubble of the 1980s, the dot.com bubble of the 1990s, and the housing/equity/hedge fund/derivative bubble of the 2000s.

All this time, the federal, state, and local governments have tried to keep up by taxing every financial transaction they can get their hands on, including by raising property taxes on the inflated value of family homes. But now, with the last of the bubbles deflating, the tax base is vanishing. So governments, along with the private sector economy, which has been living on capital gains in the absence of job income for all but the very rich, have gone into the tank as well.

President Barack Obama’s economic recovery program, along with the budget just released, is an attempt to substitute a federal government bubble for the failed private sector ones. Like the private sector bubbles, this one is also based on debt. This is because debt is the only way anyone in the U.S. can any longer think of when it comes to creating a national money supply. It includes the president’s proposed \$5 billion federal infrastructure bank for lending to state and local governments. This bank will probably offer better interest rates than the bond markets, but it’s still debt.

There was a time in U.S. history when other ways were known to create money; for instance, during the Civil War, when Congress authorized the Lincoln administration to spend Greenbacks directly into existence. The banks hated the Greenbacks, of course, so they got Congress to pass the National Banking Acts of 1863-64, which were the prelude to the Federal Reserve Act of 1913. Today, Greenback-type funding for the federal government is one of the chief provisions of the American Monetary Act drafted by the American Monetary Institute (www.monetary.org).

Another way to introduce debt-free money into the economy is through a dividend, such as the Alaska Permanent Fund, which in 2008 paid every resident \$3,269 tax-free out of the state’s resource revenues. There is no good reason why such a dividend could not be paid by every state or by the federal government.

Greenbacks and programs like the Alaska Permanent Fund are part of what I call Dividend Economics. It’s why I’ve proposed the “Cook Plan,” which would be a system of vouchers for the necessities of life in the amount of \$1,000 a month for any adult citizen who applied. A smaller amount would be provided as an allowance for children.

The vouchers would be taxed like any other income and would supplement other entitlements such as unemployment compensation, Social Security, etc. But taxes would be low for those who would use the vouchers as a main source of income. Under the plan, the vouchers would then be accepted as deposits at a new network of community savings banks that would lend at one percent interest to consumers, students, small businesses, local

manufacturing establishments, and family farms.

This would introduce over \$2.5 trillion of debt-free money into the economy over the next year, because under the “Cook Plan,” the dividend would be paid directly by the U.S. Treasury without borrowing or taxation. It would not be inflationary, because it would replace money from public bank lending and would result in new goods and services being created within the U.S. producing economy. In fact, we would see a renaissance of local and regional economic activity that would eventually transform the national economy as well.

You may ask, should we just be “giving away money?” My answer is that if the banks can create trillions of dollars in credit out of thin air for lending, why can’t the government create it for the people? The same goes with the trillions the government is borrowing to pay to the banks to reflate the bubble economy. Give it to the people instead. Look at Obama’s economic recovery program that equates to \$225,000 for each new job it hopes to create and probably won’t. Give that to the people too. Let them use the money as a dividend to live on during this emergency and create new jobs as well.

Right now there is nothing further from the minds of President Obama and his advisers than such ideas. That’s why his new bubble budget is America’s “Last Picture Show.”

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