

# An Alternative Program for Economic Recovery

By [Dr. Jack Rasmus](#)

Global Research, March 20, 2009

20 March 2009

Region: [USA](#)

Theme: [Global Economy](#)

In October 2008, the U.S. economy began to slip more rapidly into deeper financial instability while simultaneously descending into a recession of epic dimensions, the worst by far since 1945.

By year-end most credit markets were near-frozen despite nearly \$4 trillion in liquidity injections by the Fed and the Treasury. The widespread credit contraction had morphed into a virtual credit crash, resulting in the freezing up of the commercial paper, money market, and municipal bond markets—setting the groundwork for further financial instability yet to come in 2009 involving money market funds, hedge funds, pension funds, securitized auto and student loan defaults, mass credit card delinquencies, and consumer and business bankruptcies large and small.

A virtual 'bankers' strike' has continued in effect since October 2008. Banks and lenders still continue to refuse to loan to homeowners, consumers, and business at rates that would stimulate demand, despite having received trillions of taxpayer money.

As 2009 unfolds, the risks and consequences could not be more grave.

In the twelve months since the current recession officially began (November 2007-November 2008) there was an official increase of 3.2 million unemployed—i.e. a similar total to past recessions but attained in one third the time. Moreover, when 700,000 'discouraged-marginally attached unemployed', and 2.8 million involuntary part time hires over the year are added (the latter equivalent to another 1.4 million additional unemployed), the total, November to November, in rising joblessness is over 5.3 million.

In November 2008 alone, when properly estimated, the loss of jobs amounted to more than one million. Similar official totals of roughly 600,000 more jobless were registered in December, January and February—each representing approximately 1 million more unemployed when properly calculated for each of those months.

In terms of historical comparison with prior postwar recessions, that will mean 9 million new unemployed within 15 months—three times the totals in prior recessions in less than one half the time.

When added to the total 7.1 million jobless that existed prior to the current recession beginning in December 2007, that's a cumulative total new unemployed of more than 15 million! Never before in US data collection history has that many unemployed occurred in so short a time.

It is not unreasonable, moreover, to assume further another 5-7 million could lose jobs in the ten remaining months of 2009, given the current accelerating downward trend in all

leading economic indicators and surveys of CFO layoff plans for 2009. That means a potential 20 million unemployed by the end of 2009!

The recovery proposals that follow require a minimum of \$1 .050 trillion to fund a comprehensive jobs retention and creation program. The housing program proposals that follow call for an additional \$950 billion in spending. The third section of the proposals that follow address how to finance the \$2 trillion program. That amount is what is needed in the short term, the next two years, just to check and contain the economic collapse and prevent the loss of another five million jobs. The fourth section of the program proposals addresses several long term income restoration elements associated with pensions, health care, and education that are necessary to sustain long term consumption demand, while ensuring the recovery does not falter once again after the two years.

Given the foregoing prefatory remarks, the following proposals constitute a comprehensive recovery program of sufficient scope and magnitude to enable the restoration of 20 million jobs; to stabilize declining housing markets and housing asset prices; to halt the impact of housing price decline on financial institutions' balance sheets; and to stimulate consumption demand without generating multi \$ trillion dollar annual budget deficits in 2009 and 2010.

#### PART I: Housing Market Stabilization & Consumption Restoration

Contrary to both Fed and Treasury focus the past 18 months, the US does not suffer at present from a liquidity crisis but from a solvency crisis. In fact, a threefold insolvency crisis, each dimension of which continues to grow: banking and financial institutional insolvency, auto industry insolvency (spreading to other non-financial corporations in retail, manufacturing, commercial property construction, and various services), and consumer insolvency (affecting in particular auto, student loan, and credit card installment loans).

At the heart of the insolvency and financial crisis is the residential housing market. Falling housing asset prices for more than a year and half have been driving deteriorating bank balance sheets, which in turn have driven the spreading credit contraction, rising defaults, business cutbacks and now accelerating layoffs.

Today's housing asset price collapse is driven by rising housing supply, the largest cause of which has been rising foreclosures and defaults in the initial phase, but now increasingly determined as well by growing trends in negative equity and unemployment. One in ten homeowners are in foreclosure, delinquent or in default. Housing supply has consistently risen faster than banks have been willing to stimulate housing demand despite the \$3 trillion Treasury-Fed liquidity program. Bankers and lenders have been on a veritable 'strike' in terms of lending.

An estimated 5-7 million foreclosures will occur over this cycle. Housing prices have fallen approximately 25%. Sales of single family homes dropped in November by the most in two decades and resale prices fell at 1930s rates. The housing market is nowhere near bottom, and prices most likely will continue to fall by at least another 20% in 2009.

Treasury-Fed programs have not addressed this root cause of supply driven housing price collapse, now spreading from subprime to near prime to prime mortgages, to credit and equity lines, as well now to commercial property loans. Treasury-Fed programs have instead focused on the symptom of the crisis—i.e. deteriorating bank balance sheets driven by the housing asset (and other asset) price collapse. Treating the symptom has not resolved the

fundamental problem.

FDIC chairperson, Sheila Bair, has stood alone in proposing solutions to address the core problem of supply-driven housing price collapse. However, even her program is insufficient in scope, addressing at best fewer than one million units. Recently Fed chairman, Bernanke, has adjusted his original position. However, the Fed's recent effort to provide 4.5% loans via Fannie Mae addresses only 20% of the market and does nothing for securitized mortgages where the majority of foreclosures and defaults now occur. Moreover, the Fed program targets new buyers only, thus leaving existing homeowners without any assistance or aid. It is a 'trickle down' program, providing generous incentives to banks-lenders with the hope they will eventually lend. However, the problem is precisely that banks' and lenders' are reluctant and unwilling to lend in sufficient magnitude, at reasonable rates, with reasonably liberal loan terms, in order to stimulate housing demand and in turn stabilize housing prices. The solution must therefore inevitably be for the government to bypass banks and lenders altogether, and provide mortgage financing directly to the housing and small business property mortgage markets. 'Trickle down' demand side stimulation via the medium of banks-lenders has not worked, is not working now, nor will it work in the future quickly enough or with sufficient magnitude to stabilize housing prices. Finally, the Fed program assumes that, should banks even loosen lending and lower rates, that sufficient demand will be forthcoming—despite now accelerating record unemployment and collapsing household net worth and household balance sheets.

The following measures are thus designed to aggressively and directly address the core problem of excess housing supply and housing price collapse. The measures bypass the banks and lenders now effectively 'on strike', refusing all but token efforts at stimulating loan demand. The measures target reducing housing supply coming onto the market, not stimulating housing demand. The problem of collapsing housing asset prices is too central, too critical, and too important to recovery to leave to the whim of bankers and lenders more concerned with hoarding cash and loaning only at excessive rates.

1st Measure: Reset Mortgage Rates for All Loans Originated 2002-2007.

All forms of loan financing for the residential mortgage market (30 year fixed, conventional, jumbo, equity lines, ARMS, etc.) should be reset to the Federal Funds Rate plus 1% to cover administrative costs. If banks can obtain loans from the Federal Reserve at 1% or less, as is the case today, then consumer-homeowners should be allowed to borrow directly from the government at similar rates.

All loans issued between 2002-07 are included in this provision, not just those facing foreclosure or default. The reason for the comprehensive reset is that the provision is designed to serve not only to rescue homeowners facing foreclosure, and thus stem the rising housing supply (and falling price) problem, but to serve as a consumption-stimulus measure in general.

The alternative to stimulating consumption demand in this manner is to introduce new consumption tax cuts. The latter are less desirable and effective than mortgage rate resets for the following reasons: First, tax cuts have a lower 'multiplier' effect and thus less total economic stimulus. Second, most tax cuts have a lag time that the economy at the moment cannot afford. Third, tax cuts will exacerbate the 2009-10 budget deficits already projected to exceed \$1 trillion, which will potentially discourage other private investment. Finally, consumption tax cuts will also politically require corresponding business tax cuts, that will

have little if any economic stimulus effect, will have even longer lags, and will unnecessarily raise the deficits even further.

Resetting for all loans issued between 2002-07, not just those in default or foreclosure, will further improve the likelihood of wider political support for legislative passage.

The resets should also apply to small business commercial property mortgages, where small business is defined as less than 50 employees and less than \$1 million in annual net income.

#### 2nd Measure: Reset Principle Loan Balances for All Loans Originated 2002 -07

Principle balances for all loans originated 2002-07 should similarly be reset according to the following formula: The rolling average for the property's market assessment for the six years prior to date of origination between 2002-07. For example: a property sold in 2006, reflecting the inflated housing prices of 2003-06, would be reduced to the average price for the property from 2000-2005. The artificially inflated prices of 2003-07 were not the fault of the homeowner but banking-lending practices and speculation by participants in the CDO-securitization markets.

The rationale for principles resets is the same as for interest rate resets above: i.e. to reduce the flow of supply of housing onto the market driving housing price decline but, equally importantly, to serve as a general stimulus to consumption demand. Like interest rate resets, resetting mortgage principal will serve to stimulate consumption demand with higher multiplier effects while avoiding a negative impact on the already heavily stressed budget deficits anticipated in 2009-10.

#### 3rd Measure: Create Federal Homeowner-Business Loan Corporation (HSBLC) to Provide Direct Lending to the Homeowner-Small Business Property Markets

The Federal Reserve's current strategy of committing funds to the mortgage market through lenders, to provide incentives for them to lower interest rates is not sufficient to revitalize the residential mortgage markets and prevent continued housing deflation. Nor is a focus on buying assets through Fannie Mae/Freddie Mac for a mere 20% of the market. The Fed's focus on getting foreclosed homes resold to new buyers will not sufficiently stimulate housing demand to offset continued excess housing supply via foreclosures, defaults, and 'walkaways'. In short, the Fed actions will do little to prevent continued housing price deflation which is at the core of the housing crisis, as well as a good part of the general banking system insolvency.

A new federal housing agency, a 'Home Owners-Small Business Loan Corp.', or HSBLC, must be created to provide direct lending to homeowners and small businesses. This is not a 'Reconstruction Trust Corp' recommendation to merely buy up mortgage assets, which cannot succeed so long as housing deflation momentum continues. The proposal for a HSBLC is more similar, but extends more aggressively, a 'Home Owners Loan Corporation' concept that was introduced during the 1930s.

The initial task of the HSBLC would be to purchase existing mortgages in foreclosure, resetting rates and principal according to the aforementioned formulas. Thereafter, it would extend mortgage financing to all potential home financing, subject to the annual income limits set forth below. To control initial costs, eligibility cutoffs for loan principle and

mortgage rate resets might initially apply only to homeowners with annual incomes of \$150,000 or less. That would cover the approximately 80% of taxpaying households and the vast majority of homeowners facing foreclosure. More wealthy homeowners could continue to access private mortgage markets. So too might homeowners whose lenders agree to voluntarily comply with the HSBLC interest and principal resets, thus providing positive externalities to the program.

Financing for the takeovers would be made available by the immediate transfer of all the remaining \$350 billion allocated for the TARP program, which was originally designed to buy up mortgage loans. Another \$600 billion recently announced by the Federal Reserve for the mortgage market would also be transferred to the HSBLC. The HSBLC would function as a combined depression era HOLC (Home Owners Loan Corp) and the RFC (Reconstruction Finance Corp) of that period, in one unified organization. It would extend, however, beyond residential mortgages to small business property mortgages, defined as companies with fewer than 50 employees and an annual net income limit.

The above initial \$950 billion funding levels would enable the HSBLC to buy up all the subprime mortgages issued between 2002-07. Subprimes account for approximately 30% of the \$4 trillion in mortgages issued over the period, or about \$1.2 trillion. A \$300 billion initial outlay would leave \$650 billion for the remaining loans issued during the period.

Pre-existing mortgage investors with loans taken over by the HSBLC would be paid off through the above funding, at an initial rate of .25 on the dollar, and a second .25 over a 15 year period from cash flow generated by homeowner mortgage payments to the HSBLC. Additional revenue for the HSBLC's staged expansion would be generated by packaging bonds and reselling to foreign and domestic investors as a special form of new US Treasury debt.

#### 4th Measure: One Year Moratorium on All Foreclosures and Default Proceedings

A one year moratorium would be necessary to freeze immediately hundreds of thousands, and perhaps millions, of foreclosures and offset negative housing supply trends. It would provide a period of necessary transition, during which resets would take effect and the HSBLC was organized and began operations.

#### 5th Measure: Optional Homeowners 40-Year Fixed Loan Extension

All homeowners with mortgages originating before 2002 or after 2007 would be eligible to optionally participate in a monthly mortgage payment reduction by means of extending their mortgages to 40 year terms. All mortgage lenders and their servicing agents by law would be required to reset their mortgages, at no cost to the borrower, to the new 40 year term should the homeowner so request.

Once HSBLC funding levels grow to sufficient levels, these homeowners would be allowed to refinance their mortgages with the HSBLC as well.

Appropriate compensation to lenders would be determined by the HSBLC at the later date.

#### 6th Measure: 15% Homeowners Investment Tax Credit

As yet another consumption generating feature of Part I, homeowners in the above group in

Measure 5 would be eligible for a 15% homeowners investment tax credit, itemized on annual tax returns. The credit would cover items and categories such as home repair, upgrades and expansion, and major maintenance and improvements. Also included would be purchases of major home consumer durables, such as solar conversion, AC systems, and major home appliances like refrigerators, ovens, washer-dryers, etc. The purpose of the provision is to allow homeowners not participating in consumption aiding direct resets, to participate in alternative consumption opportunities.

#### 7th Measure: Restoration of 'Regulation Q'

While not a direct homeowner item, an equally important provision generating consumption demand is the restoration of 'Regulation Q'. Previously a provision, but repealed in the 1970s, Regulation Q in effect established maximum ceilings above which banks and other credit card lenders could not charge monthly interest. This new regulation would be indexed to the annual core inflation rate in the U.S. economy.

#### PART II: \$1 Trillion Jobs Creation and Retention Program

Current proposals by President-elect Obama have been and continue to be grossly insufficient to generate jobs recovery, even to offset jobs lost in the past year let alone to absorb the monthly 150,000 new entrants to the labor market. As noted previously, the effective number of jobs lost in just the period, November 2007 through December 2008, has been more than 6 million. At current trends, another 5-7 million unemployed is likely in 2009.

In his campaign proposals, the president-elect proposed a jobs creation program of about \$175 billion, most of which was distributed over the next ten years. As the crisis deepened after the election, he proposed 2.5 million jobs, but over the next three years. In early December talk was of about 3 million jobs, distributed presumably over his first term in office, or four years, at a cost of around \$500 billion. In mid-December this estimate and cost had risen to around \$750-\$800 billion, over the next two years.

It is unclear, however, how much of the rumored Obama stimulus package of \$775 billion will be dedicated to direct job creation or job retention and how much to other measures. Presuming roughly two-thirds at the high end, that would mean around \$500 billion, or about half that projected as necessary in our above \$1 trillion direct jobs program.

What an Obama program jobs program, thus defined, means is job creation that will take two years and more to provide work for only two thirds of those currently without jobs as of December 2008—that is, without taking into account the 5-7 million more projected unemployed in 2009 plus an unknown additional several millions of new jobless in 2010.

Moreover, targeting jobs in public workers infrastructure and alternative energy production ignores the limitations of quick job creation from these sources, in particular the latter. Alternate energy is not a developed market as yet and will take years to ramp up in terms of employment. Moreover, infrastructure-public works jobs (road, bridges, sewers, etc.) also ignores the composition of the current layoffs, which are largely non-construction related. How laid off hotel, hospital and retail workers are supposed to flow into bridge construction is a debatable question.

The composition of employment generation in any jobs program should be thoroughly and carefully thought out. The quickest way to retain and grow jobs is within existing industries

and businesses, not simply creating new industries from scratch. The other quick path to jobs is direct hiring by government. A third path is promoting hiring in those industries having shown already high job growth rates, or potential for high job growth, such as health care and education. The first area requires a restoration in demand for products and services of those businesses, which requires consumption promotion policies such as noted in Part I. While the second (government) requires resolving the growing insolvency of state and local governments and school districts. For the latter, the government must also more aggressively intervene to restore the municipal bond markets. With these caveats in mind, the following job creation and retention program is proposed:

8th Measure: \$300 billion for infrastructure jobs

\$200 billion in the first fiscal year and \$50 billion in each of the following years. Projects with long R&D and capital intensive should be initially avoided. Labor intensive projects must be funded first. A limit of no more than \$50,000 per job created-retained should be paid by the program.

9th Measure: \$100 billion for further stimulating growth sector jobs

This measure targets industries like healthcare and related services with past rapid job growth, to ensure continued and induce further expansion of employment. There is no quicker and easier way to grow jobs than to focus on sectors where job growth is already robust. On the other hand, this measure might also include the construction of public hospital and clinics that have been dismantled over the past three decades. It could further include the construction of new doctor-nursing government training hospitals, to increase the supply of physicians and provide an economical medical services source for the low paid and uninsured. This was once done for agriculture and mining colleges in the 19th and early 20th century. It could just as well be done for healthcare and other essential services industries in the 21st.

10th Measure: \$100 billion for manufacturing industry job retention and creation.

This should take the form of direct government subsidies, not investment tax credits and the like for which no proof of job creation has been required, or claims that are made by employers for job creation offshore. If necessary, the federal government should consider direct purchase and stockpiling of select manufactured goods—such as processed foods—for distribution to the unemployed, school programs, children of low wage workers, and as foreign aid in kind.

11th Measure: \$300 billion Government Sector Job Creation-Retention

Spending by State and Local governments in 2009 is expected to drop by \$100 billion, with mass layoffs yet to come in this sector. Job retention benefits are thus potentially great, and job creation and hiring can be undertaken relatively quickly, absorbing many of the unemployed relatively easily. The projected funding of \$200 billion to States and Local Governments—to offset the \$100 billion decline in spending and provide an additional net \$100 billion—would include provisions requiring verifiable direct job retention or job creation. A third \$100 billion in job program funding would apply to school districts to reduce class sizes and hire new teachers in core areas of science, math, English; to provide additional employment for special instruction for disadvantaged; and restore projected cuts in state and local pension funds. Fund disbursements should occur only once proof of hires

are made or proof of layoffs averted. Part of the \$200 billion for state and local government might be earmarked to revitalize the municipal bond market, providing bond measures in question were job creating in character.

#### 12th Measure: \$125 billion for bailout and consolidation of the Auto Industry

This proposal provides in the first year \$50 billion, minus the initial \$14 billion provided in the interim bailout of December 2008 to GM-Chrysler. To receive any funding the following preconditions must be met by the auto companies: First, a three year moratorium on all foreign plant investment and expansion projects. Second, strict compliance with more stringent new vehicle mileage requirements. Third, SEC access to all company offshore accounts and records. Fourth, community and union membership on company boards and local union participation on investment committees at all local plant sites.

Special requirements for participation by Chrysler's parent, Cerberus, to ensure government investment is not improperly diverted to other company projects. No funds should be committed to Cerberus-Chrysler without that company's agreement to share fully with the government its financial data and expenditures.

In the second year another \$50 billion is made available for the purposes of industry consolidation involving all three US auto companies, major parts suppliers, and major credit subsidiaries, GMAC and Ford Credit. The second \$50 billion is targeted for purchase of a 50.1% majority share of the consolidated company's preferred stock by the US government.

An additional \$25 billion dedicated to funding 'employee assistance' for autoworkers displaced by merger and consolidation. This fund would create an auto industry domestic version of the 'Trade Assistance Act', and would be patterned after similar programs in Germany that provide workers 80% of income for two years until employed in equivalent paying work elsewhere, followed by a two year retraining of workers at similar pay if not re-employed within the initial two year period.

#### 13th Measure: \$125 billion for Emergency Unemployment Insurance and Special Domestic Assistance Retraining.

Current Congressional Budget Office estimates are for expending \$79 billion in unemployment benefits in 2009, compared to \$43 billion in 2008, for a \$36 billion increase. That increase is predicated, however, on the assumption of a 9.2% official unemployment rate. At minimum, the official rate for 2009 will be 10.5%. That means a further projected need for another \$20 billion. Given the massive increase of more than 3 million part time workers, mostly converted from full time, in 2008 and the expectation many of these will soon be laid off in 2009, it is imperative that unemployment benefits be extended to these part time status workers and their families as well. That will require another \$26 billion unemployment benefits over the next two years. That brings the total unemployment insurance benefit costs to approximately \$125 billion (\$43 billion 2008 levels plus an additional \$82 billion).

#### PART III: Financing the \$1 Trillion Jobs Program

While Part I is financed by the transfer of \$350 billion from TARP and reassignment of \$600 billion from the Federal Reserve, new funding is necessary to finance the \$1 trillion associated with measures six through ten above. Once again, as in the case of Part I, deficit spending via borrowing by the US government is a treacherous path, given the massive



deficits left by the Bush administration and the additional trillions added to the deficits as a consequence of the bailouts of the banks and other financial institutions to date. Deficits in excess of trillions represent totally new ground for the economy. Economists who make light of the deficits of those dimensions, arguing the sky's the limit during recessions, ignore the possible feedback consequences of such deficits on long term interest rates, the dollar in world exchange markets, and other unknown effects. A massive jobs creation-retention program of at least \$1 trillion is necessary, but the deficit impacts must be avoided if possible. The only alternative is major tax increases, but increases that must not impact consumption in turn. The following set of measures are proposed to fund the \$1 trillion without impact on consumption or on deficits:

#### 14th Measure: Retroactive Windfall Taxes: Oil-Energy Industry Windfall Profits, Executive Compensation, and Corporate Foreign Retained Earnings Taxes

Oil and energy companies have earned the highest profits for four years running in the history of corporate enterprise. As near monopolies they have manipulated price levels by creating artificial shortages to reap what economists call 'rents', or excess profits unjustified by normal market conditions. The new financing should reach back and retroactively, for three years, capture the reasonable taxes the oil-energy companies should have paid. Thus a retroactive windfall profits tax should be levied on this sector and these companies.

Similarly, the excess compensation accrued to themselves by senior management teams in the Fortune 5000 companies should be taxed retroactively for the last three years, 2005-2007. Once having earned approximately 35 times the average pay of employees in their companies, senior executives increased that share to 400-500 times by 2005. Moreover, deferred forms of pay expanded as well. Academic studies show senior execs share of corporate profits doubled from 5% to 10% under George W. Bush. The excess over the long term average for executive pay should be taxed as windfall compensation. Thirdly, US multinational companies through various accounting schemes have succeeded in the past seven years in diverting hundreds of billions of dollars in earnings in the US to offshore subsidiaries and have refused to repatriate those earnings to pay corporate income tax rates. A major concession was introduced in the 2004 tax act that lowered their rates from 35% to 5.25% if they repatriated those earnings, estimated at more than \$700 billion by Morgan Stanley at that time. The act required spending of the tax savings on job creation; instead most used the savings to buy back stock and make acquisitions. These companies should now be required to pay proper taxation for the past seven years' diversion of earnings to offshore operations. Should they refuse to comply, their imported products to the US should be tariffed at the 50% rate until compliance.

#### 15th Measure: Capital Incomes Tax Rate Rollbacks:

The single most important contributing factor to current multi-hundred billion dollar budget deficits is the radical restructuring of capital incomes taxation since the first Reagan budget in 1981. Rolling back capital incomes taxation to 1981, not to 1993, is necessary to raise sufficient funds to confront the current economic crisis no matter what the specific form fiscal spending might take in 2009 and beyond. Capital gains, dividends, interest and rent income taxation, and inheritance taxes have been the central causative factor in the radical shifting of the top 1% taxpaying households' share of total national income since Reagan.

There are approximately 114 million taxpaying households in the U.S., and the wealthiest 1%, or 1.1 million, have increased their share of IRS reported income from 8% in 1978 to

more than 20% today, according to UC Berkeley economist, Emmanuel Saez and his colleague, Thomas Picketty. This more than 20% share is approximately equivalent to that which existed for the wealthiest 1% in 1928. The severe shift and maldistribution in income in the U.S. since Reagan is heavily responsible for the runaway speculative investment contributing to the current financial crisis, as well as to the collapse of consumer spending so abruptly and deeply in recent months. 91 million households, in which all the 110 million nonsupervisory production and service employees fall, have had no gains in weekly earnings in 30 years. Their response has been to make up for stagnant and falling standards of living by working extra hours, putting additional family members to work,

refinancing homes, and using credit cards—all of which have now abruptly come to an end with the current crisis. It is not surprising consumer spending has virtually collapsed. No long term change in the crisis is therefore possible without a basic re-structuring of the tax system in the U.S., starting with capital incomes taxation.

16th Measure: Repatriation of \$2 Trillion from Offshore Tax Havens:

The foregoing massive income shift in the U.S. has directly resulted in the diversion of trillions of dollars by wealthy investors and corporations to the 27 offshore tax havens, mostly island nations, which the IRS refers to as 'special jurisdictions'. Hearings by Senator Max Baucus have hit a stonewall due to refusal of these nations to comply with reporting of diverted income and revenues. Conservative bank (Morgan Stanley) estimates in 2005 were the total holdings in offshore shelters had risen from \$250 billion in the mid-1980s to \$6 trillion by 2005. At least 40% of this total represents US investors and corporations. Recently the German government has moved on its wealthy investors diverting income to avoid taxation to the small nation of Lichtenstein. The US government must do the same.

Repatriation of only half, \$2 trillion, and redeposit of those funds in US based banks would provide more than needed to restore liquidity to the US banking system, instead of attempting to do so at the US taxpayer expense as is presently the case. Noncompliance by US investor-corporations should be penalized at 10%. Severe pressure should also be applied to foreign (27 island nation) Treasury Departments to effect compliance and cooperation. If Germany can do it so can the U.S.

17th Measure: 6.25% FICA Tax on all Unearned Incomes above \$332,000:

A FICA tax at half the total rate paid presently by working families earning up to \$102,000 should be imposed on the wealthiest 1% households (with \$332,000 threshold earnings) on all forms of reported income by those households. The proceeds would be earmarked to provide US government matching contributions to the 'National 401k Pool' noted below.

PART IV: Providing a Long Term Consumption Stimulus: National 401K Pool, De-Privatization of Student Loan Market, and 80% Coverage Single Payer Health Care

The key to recovery is to stabilize consumption demand, which is now in freefall due to massive job loss, cutback in hours worked, spreading wage and benefits reduction actions by business, collapsing 401k plan values, equity investment decline, multiple negative 'wealth effects', and general economic uncertainty. Tax cuts for business will have little effect in an environment of cash hoarding and low expected rates of return on investment. It matters little if cost of investment is reduced when expected returns are nil or negative.

Similarly, even consumption tax cuts promise little long term stimulus when personal debt levels have risen and consumers have shifted to saving from consumption. The 2008 stimulus bill should provide ample evidence of the ineffectiveness of such fiscal, tax-based policies. Furthermore, tax reductions may well have net negative effects as a consequence of trillion dollar budget deficits. A recovery package must therefore focus on massive government spending, in particular on job creation-retention and on housing recovery, rather than taxation reduction in the near term (2-year timeline) in today's environment of accelerating economic decline.

The preceding \$2 trillion program of jobs and housing proposals is designed to turn the system around short term, over the next two years. However, a more fundamental longer term problem exists in the U.S. economy. That problem is the depressing of consumption demand by the vast majority of the population, as a consequence of policies since the 1980s that have shifted relative income from the bottom 80% to the wealthiest 10% (and higher) households and corporations.

That shift in income was compensated for by most of the 80% by working longer hours per household by increasing female labor force participation (thus increasing family weekly earnings in lieu of hourly wage gains); by heads of households working second, part time jobs; and by assuming massive installment, credit card, and mortgage refinancing debt. All the preceding, however, are no longer measures to offset relative income loss. Consequently, new longer term, structural reforms must occur to sustain consumption demand in the US economy. Failing this, even the \$2 trillion injection of spending will eventually dissipate over the longer term. Three specific proposals are designed to redistribute income, reversing the negative trends of the past three decades, and set the US economy on a longer term growth path. These measures all involve restoring disposable income to families in the bottom 80% income distribution by means of fundamental health care spending reform, by the creation of a national 401k pool financed by matching contributions from a 2% business to business value added tax, and by de-privatizing the student loan market.

These measures are as follows:

#### 18th Measure: Establish a National 401K Pool:

The U.S. retirement system has been crumbling since the 1980s. Originally created in the post-war period based on a 'three stool' concept of one-third retirement income from social security, one third from employer provided pensions, and one third from personal savings—all three stools have been broken. Since the 1980s more than 100,000 defined benefit pensions have been dismantled and the remainder are under severe attack since the passage of the 2006 pension act. 401k plans, and their hybrid cousins, Cash Balance plans, created in the last decade have together played a major role in helping to dismantle the Defined Benefit Plan pension system over the past quarter century.

The 401k approach to providing retirement income has proved to be a disaster. The average income balance in a typical 401k plans today is barely \$18,000. For the tens of millions who had their defined plans displaced with 401ks, it is a crisis of immense dimensions, in particular for the 77 million baby boomers about to retire starting in two years. The repeated collapse of equity markets in the past decade has further shown that employer-provided 401ks is a failed model for providing retirement benefits. In the past year alone, the value of employer-provided 401k pensions has fallen by more than \$1 trillion.

The US government should therefore 'nationalize' the employer-provided and managed 401k plan system. A single national 401k pool should be created. This pool would function separate and apart from the 'pay as you go' Social Security System. Kept legally separate, the national 401k pool would thus provide a supplemental retirement system to the Social Security System.

The pool would work as follows: each participant in the pool would be able to make individual deposits to the pool and withdraw limited amounts from it annually, just as under present employer-managed 401ks. Each account within the pool would be 100% portable and immediately vested. Voluntary deposits by individuals into the pool in their own name would be matched by equivalent government contributions. Government matching contributions to the pool would be funded by means of the introduction of a 2% national value added tax on the sale of intermediate goods (i.e. a business to business sales tax) that all businesses with annual sales revenues of more than \$1 million would be required to make. Government investing of the pooled funds would be restricted to public ownership-public works projects, or government loans to publicly beneficial joint government-business projects such as alternative energy, green technology, and the like. Individuals would thus be able to invest in the growth and public welfare of the nation via deposits into the pool, even identifying projects of their choice.

Returns on the public investments in the pool would result in the growth of individual accounts, above and in addition to, individual and government matching contributions funded by the 2% business-to-business value added tax. Thus the individual's share of the pool could grow from three sources: personal contribution, government matching contribution, and returns on public investment projects by the government. Government provided insurance would guarantee no loss to the individual's account from public investment. Individual's accounts would not fall to less than the value of their combined initial deposits plus matching government contributions funded by the 2% tax, and could grow significantly more depending on public investment returns.

Employers would be encouraged to provide defined benefit plans and those elements of the Pension Act of 2006 that encouraged the dismantling of Defined Plans and their conversion to 401k and Cash Balance plans would be repealed. The Social Security pay as you go system would continue as an entirely separate system. Without having to make matching contributions to 401ks any longer, employers currently with defined benefit plans would be required to fully fund such plans if under-funded.

In addition, to ensure the proper funding of Social Security going forward as well, the projected Social Security Trust Fund surplus of \$1.1 trillion from 2008 to 2017 should remain within the Trust Fund and not diverted to the general U.S. budget, as have surpluses of more than \$2 trillion since 1987. Congressional resolutions to open the social security trust 'lock box' annually and transfer surpluses to the general US budget should be considered a felony. By means of the preceding measures, instead of a broken 'three legged retirement stool' there would now be a more stable, four-legged retirement table—with the National 401k pool constituting the fourth leg alongside a re-stabilized defined benefit pension, social security, and personal savings systems.

19th Measure: De-Privatize the Student Loan Market.

Originally operated as a grant system, then government loans system, as the student loan market grew it was increasingly privatized. The result was various forms of profit taking that came to dominate this market, which should be run as a public good and non-profit. Student

loan lenders make money three ways: from charging market rates, from getting additional subsidies from the government, and by repacking and reselling student loans as collateralized debt obligations, or CDOs. The latter is largely responsible for the collapse of the current student loan market. The student loan market should thus be returned to its original objectives of providing cost-only government financing to students.

20th Measure: Single Payer Universal Health Plan.

The U.S. pays the highest rates of health care spending in the world for one of the lowest returns in health care quality and coverage. The U.S. current \$2.3 trillion national tab for health care—double that of other single payer national programs—includes \$1.1 trillion in payments to non-health services providers such as health insurance companies and other ‘middle men’ in the system. Given the political opposition to the idea, the proposal is to introduce a Single Payer system initially for the 91 million households earning less than \$160,000 per year. The plan would supplement pre-existing employer-provided plans in its first phase. Thus the plan would initially be voluntary in terms of participation. Households earning above \$160,000 (top 20% incomes) would be exempt, but could participate for a fee. In subsequent phases, employer plans would be absorbed into the program, and the income bar would be raised, eventually converting the program to a Universal system.

*Dr. Jack Rasmus, Dept. of Economics & Politics, St. Marys College, Moraga, California, [rasmus@kyklos.com](mailto:rasmus@kyklos.com), [jjr2@stmarys-ca.edu](mailto:jjr2@stmarys-ca.edu)*

The original source of this article is Global Research  
Copyright © [Dr. Jack Rasmus](#), Global Research, 2009

---

[Comment on Global Research Articles on our Facebook page](#)

[Become a Member of Global Research](#)

Articles by: [Dr. Jack Rasmus](#)

**Disclaimer:** The contents of this article are of sole responsibility of the author(s). The Centre for Research on Globalization will not be responsible for any inaccurate or incorrect statement in this article. The Centre of Research on Globalization grants permission to cross-post Global Research articles on community internet sites as long the source and copyright are acknowledged together with a hyperlink to the original Global Research article. For publication of Global Research articles in print or other forms including commercial internet sites, contact: [publications@globalresearch.ca](mailto:publications@globalresearch.ca)  
[www.globalresearch.ca](http://www.globalresearch.ca) contains copyrighted material the use of which has not always been specifically authorized by the copyright owner. We are making such material available to our readers under the provisions of "fair use" in an effort to advance a better understanding of political, economic and social issues. The material on this site is distributed without profit to those who have expressed a prior interest in receiving it for research and educational purposes. If you wish to use copyrighted material for purposes other than "fair use" you must request permission from the copyright owner.

For media inquiries: [publications@globalresearch.ca](mailto:publications@globalresearch.ca)