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# An Emergency Program of Monetary Reform for the United States


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*The author of this independent report worked for the Carter White House and NASA, then spent 21 years with the U.S. Treasury Department. In the report, he explains that the U.S. financial system headed by the Federal Reserve System has failed and that only an emergency program of monetary reform can address conditions which may be leading to a catastrophe like the Great Depression or worse. Such an assessment has become increasingly familiar as economic storm clouds continue to gather. But the analysis and recommendations contained in the report may be surprising, even to many progressives.*

**INTRODUCTION**

The mass media show attractive images of the comfortable lifestyles of the upper income earners who benefit from the cash-rich global economy. Which luxury car to drive, which championship golf course to frequent, which hedge funds to invest in, which stock brokers to consult—good questions if you've got the money! But behind this attractive scenery, debt, bankruptcy, and poverty are a tsunami that is overwhelming much of the world's population, including growing numbers in the U.S.

Following close on the heels of these calamities is a worldwide breakdown in law and order. Drug dealing, money laundering, gangsterism, white collar crime, political corruption, weapons trafficking, human slavery, terrorism, and endemic warfare are the dark side of a global financial system where everything has a price, the rich seem above the law, and individual security is almost impossible to attain.

Behind the fences of our gated communities, we fancy ourselves the "good guys" in this scenario. We've learned to blame the victim, failing to see that it's a world the U.S. and the other Western powers have fashioned through our centuries-long march to own or control everything that can have a price tag attached to it.

Meanwhile, "dollar hegemony" has flooded the world with U.S. currency, loans, or debt instruments to support our fiscal and trade deficits, pay for our extraordinary level of resource utilization, induce foreign governments to purchase our armaments, ensure the allegiance of their governing elites, and maintain their economies in subservience through World Trade Organization and International Monetary Fund trade and lending policies.

Today we are engaged in the outright military conquest of the Middle East. Our political leaders tell us that if we don't fight the "terrorists" in Bagdad we will have to fight them on our own shores. But India, which has become our largest armaments customer, has seen a soaring number of suicides among bankrupt farmers left out of that nation's economy. The illegal immigrants who have flooded the U.S. from Mexico have watched NAFTA destroy their own family farms, where 600 Mexican farmers a day are forced off the land.

But now our pigeons are coming home to roost. The CEO of one of our leading brokerage houses received over $53 million in bonuses in 2006. Not far from his plush Wall Street office, veterans of two Iraq wars sleep in homeless shelters.

While U.S. corporations, including the financial industry, are reaping enormous profits, our domestic economic problems are growing, including an enormous load of cumulative societal debt, a continuing decline of real family income, and increasing wealth and income gaps between the rich and the rest. Despite the reports in the mainstream press about the economy's "soft landing" and the continued record-setting performance of the stock market, the financial markets have been shaken by the bursting of the housing bubble and soaring home foreclosures. Meanwhile, the relentless decline of our domestic manufacturing sector continues.

But one thing is connected to another. A good investigator always asks, "Who benefits?" The most salient feature of our financial system is that the creation of new purchasing power through credit—loans, mortgages, credit cards, etc.—is controlled by private financial institutions and, though regulated, works principally for their profit. Because we are never taught about alternative economic structures, we take this system for granted, though earlier generations had profound fears of becoming what President Martin Van Buren prophetically called a "bank-ridden society."

The private control of credit has given vast wealth and ironclad political dominance to what Van Buren and his 19th century contemporaries warned about—the Money Power, even though our Constitution gave Congress authority over our monetary system. This authority had been compromised through the system of state-chartered banks before the Civil War. But with the National Banking Acts of 1863-4 and the Federal Reserve Act of 1913, Congress largely ceded its powers over money to the private banking industry.

Today, high finance rules our economy and most of the violence-wracked world. The system came into existence in order to provide the capital for economic growth during the industrial revolution, but those who ran it figured out how to do so in ways that vastly increased their own wealth and power. They rule the world today.

But the system is man-made, with functions and effects that can be measured and analyzed. The system was created by historical forces, but if we want to, we can identify these forces and change the system. What we have lacked is the understanding of our possible choices, along with the discernment and moral courage to act on our understanding.

The direction in which change must be sought is that of greater economic democracy; that is, a higher degree of sharing of the bounty of the earth by more people. Though our economics textbooks don't mention it, a reform movement began in Great Britain in the 1920s called Social Credit, which showed how a financial system in a modern economy can be so structured as to serve democracy and freedom, not erode them. This knowledge has had a profound influence in parts of the British Commonwealth but has rarely been discussed in the U.S. This report explains how the Social Credit system could apply to the U.S. economy, along with other monetary proposals that have been put forth by U.S. reformers from the 19th century until today.

The report provides a unique diagnosis of the underlying financial issues by applying new concepts to familiar data. It criticizes finance capitalism but without going to the other extreme of proposing a collectivist solution. It affirms the value of “democratic capitalism,” combined with a shift to more public control of credit, and it offers a new approach to achieving worldwide prosperity, starting with economic recovery in the U.S. This can be done through measures that could be implemented today by inspired political leadership.

Most economic reform programs nibble around the edges. Many proposals address symptoms, not causes, such as suggestions to use tax or trade policy to bring exports and imports back into balance. Other observers would destroy society—or, more accurately, watch it destroy itself—before building something new. Another line of reasoning says we can only look forward to decades of a lower standard of living before we work our way out of the present crisis.

Monetary reform accepts none of these scenarios. It takes life as we live it on the individual level in a technological age as basically positive. It embraces the enormous productivity of modern industrial methods with approval and hope. But it identifies factors in the nature of industrial production at the level of the corporation as creating a chronic state of instability. These factors, which are explained later in this report, create an economy in a state of continuous crisis and disintegration to which governments react in all the wrong ways

One way is to permit the misuse of debt-financing to bridge an ongoing gap between the value of production and the purchasing power available to the community to absorb it. Another is to attempt to overcome instability by fostering continuous economic growth merely through inflationary bubbles where financial transactions can be taxed as though they produced real, tangible, value. Another is through an aggressive foreign policy based on trade and monetary dominance. Obviously, if all developed nations pursue such policies—as they inevitably do—wars must result. It is thus no coincidence that the last 100 years of incredible progress in science and technology have witnessed almost constant warfare.

The most surprising thing that monetary reformers declare is that our problems stem not from a failure to manage fairly the limited resources found in a world of scarcity but from our inability to manage a world of almost unlimited abundance and prosperity. The first thing monetary reform would do would be to change the underlying financial structure from one that confines this abundance to the privileged few—whether nations or individuals—to one that would provide it to everyone on earth. The measures which are available have been discussed among reformers for many years and could begin to have a positive effect within weeks of implementation. This is the direction in which economic stability can and should be sought, rather than the terminal out-of-control configuration of global corporatism, finance capitalism, and military aggression that has brought us to the brink of catastrophe.

For the glory of God and the love of man, we now owe it to humanity to make these epochal changes. In the meantime, it would be foolish for people to wait and do nothing while the system continues to crumble. The report closes with suggestions for immediate action by concerned people.

**LEISURE DIVIDEND?**

Ever since mankind began to invent machines to do our work, we began to look forward to a “leisure dividend.” Products could now be manufactured with far less human effort. Every new wave of mechanization, from the harnessing of steam power in the late 1700s to the cybernetic revolution of today, has held out the promise of less work and more enjoyment of the good things of life.

We’ve seen tremendous gains for the workforce. We enjoy a forty-hour workweek, a cornucopia of new consumer products, universal public education, longer life spans, revolutions in communications, medicine, entertainment, and transportation, a whole new world of interesting things to do, to know, to accomplish.

The world is so much happier and better off than in the days when our ancestors worked all day and half the night just to survive, right?

Well, wrong.

Today, the quality of life in the U.S. seems to be moving backwards. While the shelves of the big-box stores are crammed with products, most of them are made overseas by low-paid laborers from countries like China and Indonesia. The people who work in the stores earn wages that hover around the poverty level.

Not long ago, in the 1950s, a single wage-earner, usually the husband, could support a family while the wife stayed home and looked after the children. Yet they could buy a house, a car, and household appliances, go away on vacation, and send the kids to college.

Today both husband and wife must work, often at more than one job, to make ends meet. Inflation has been rampant in big ticket items such as the cost of a home, health care, utilities, insurance, and higher education, and is now affecting the cost of food.

The costs of petroleum products are soaring again. Over forty-seven million people don’t have health insurance, poverty is on the rise after a generational decline, and thirty-five million don’t have enough food to eat. Good jobs are scarce, and stress-related illness has become an epidemic.

Meanwhile, public assets like electricity have been privatized at an alarming rate. Public infrastructure such as roads, bridges, school buildings, levees, and water systems are often crumbling, with state and local governments unable to make improvements without budget cuts elsewhere or stiff tax increases to pay the costs of borrowing.

While the recent weakening of the dollar has improved the U.S. export position slightly and created a few more jobs, the official unemployment rate of less than five percent does not include people no longer looking for work, nor does it take into account the huge number of jobs that are low-paying and without benefits.

In fact the real purchasing power of the American workforce is on a steady downward trajectory, while the average pay of employees at Wall Street brokerage firms is more than $250,000 a year, and the CEOs of some U.S. companies earn thousands of dollars an hour.

But is the problem really that those at the top of the heap earn so much more than the rest of us? If so, the solution would be simple. We should do some of the things many reformers advocate, such as restore a truly progressive income tax, close corporate tax loopholes, implement universal health insurance, and make borrowing for college a little less expensive.

But while economic policies that are fairer may be desirable, they would fail to address major underlying structural issues, especially financial ones. The main problem with the U.S. economy today has to do with earnings and prices. People simply do not earn anywhere near enough to buy what the economy produces.

## GAP BETWEEN GDP AND PURCHASING POWER

In 2006, our Gross Domestic Product was about $12.98 trillion, with the enormous trade deficit of $726 billion figured in. Our total national income was $10.23 trillion, including wages, salaries, interest, dividends, personal business earnings, and capital gains. Of this amount, at least 10 percent, or $1.02 trillion, would have been reinvested either at home or abroad, including retirement savings, leaving total available purchasing power of $9.21 trillion.

The $12.98 trillion GDP minus $9.21 trillion of purchasing power equals $3.77 trillion. That's what the figures indicate was the shortfall that would have been needed to consume the entire GDP.

Thus we do not earn enough to buy what we produce. What does this mean, and who, or what, is to blame?

Despite the high CEO compensation, the huge Wall Street salaries and bonuses, and the wealth and income disparities between high and low earners, we should not blame the "capitalists"; i.e., the business owners, for the entire problem. Business profit taken as dividends is only about 7 percent of GDP.

Besides, the "capitalists" are us! Forty-five million Americans have some measure of stock ownership, including a multitude of tax-deferred retirement plans and mutual funds. This is one of the strengths of our economy—the "ownership society"—for which we deserve a pat on the back. Also, the dividends we earn are mostly spent, so most of it finds its way back into the economy.

Let's look at the situation from a slightly different standpoint, starting with the $12.98 trillion GDP. It's said that the U.S. economy is the most powerful and productive in the history of the world. This is true, even with our trade deficit and our decline in manufacturing due to relocating so much of our factory production abroad. So we should be dancing in the streets. There should be festivals, celebrations! Obviously that's not happening. Why not?

It's not happening because of how we define the $3.77 trillion gap between GDP and earnings. Since we produce the value of our entire GDP with such low labor costs, the $3.77 trillion differential really should be viewed as the total societal dividend, right?

But it's not defined as a dividend. Rather it's defined as a shortfall. This is because it still appears in prices. And with the stagnation of wages and salaries, combined with the current slowdown in appreciation of housing values which is resulting in lower capital gains, the shortfall is growing.

Obviously, those goods and services still have to be paid for—the entire $12.98 trillion. The way they are paid for is through debt. You, the consumer must go out and borrow to cover the $3.77 trillion gap between GDP and purchasing power. This is how much our debt increased in 2006—the amount of new debt less what we paid off. This new debt was 29 percent of GDP last year.

Note that this analysis deals with gross numbers, so does not dwell on the major social problem that income disparities are growing within the U.S., with a higher proportion of income each year going to the wealthiest segments of society. Conversely, the debt burden which fills the gap between GDP and income falls disproportionately on the lower income brackets.

But the point is undeniable. Our ability to produce our incredible GDP with relatively little labor means that, under the existing system, we have to borrow money from financial institutions and pay with interest to enjoy what really should be the leisure dividend mentioned at the start of this report. Remember this point, because we'll be coming back to it.

Finally, these numbers shouldn't surprise anyone. Every responsible analyst has made the point that ours is a consumer-based economy and that consumer borrowing keeps it afloat. It's why economists and politicians keep such a close eye on the "consumer confidence" polls. It's why President George W. Bush, after the 9-11 tragedy, told us to "go shopping."

## THE GROWING DEBT BURDEN

Again, what should have been a total societal dividend from our fantastic producing economy somehow became a debt. How did that happen? Let's focus on the debt for now.

Obviously, the $3.77 trillion we borrowed—the debt we just discovered where a dividend might have been expected—included a little fun—vacations, entertainment, wide-screen TVs, etc. But there's not a lot of frivolous expenditure in the average family's budget. Most of what we buy we need just to live. Many families even charge groceries on their credit cards. At the end of 2006, total debt in the U.S., including households, businesses, and all levels of government, was $48.3 trillion. This is 50 percent higher than the sum of all personal wealth held by the entire U.S. population and 38 percent higher than the value of all publicly-traded U.S. companies!

That's $161,000 per U.S. resident, or $564,000 for a family of four, payable with interest. Again, it includes personal debt, business debt that is reflected in the prices we pay, and federal, state, and local debt for which we, the taxpayers, are accountable. And the debt has been building up from year to year. It's increasing, not going down.

During the year 2005-2006, debt grew five times faster than the GDP. The Federal Reserve has calculated that total debt today is 460 percent of the national income vs.186 percent in 1957. Credit card debt was $9,300 per household in 2004 and is more now, three years later. A typical family pays $1,200 a year in credit card interest charges alone. In 2004, students graduating from college had an average debt of $21,899. Many end up owing $80,000 or more, especially if they attend law or medical school. Under the 2005 bankruptcy "reform" legislation, student loan debt can never be written off.

One result of skyrocketing debt is that the financial industry, which today includes much more than just banks, is the fastest growing sector in the economy, with capitalization increasing from less than five percent of the Standard and Poor's total in 1980 to twenty-two percent today. The financial industry now generates thirty percent of all U.S. corporate profits. These profits result from account and transaction fees, commissions, interest charges, foreclosures, penalties, and late fees.

Much of the profits—which totaled about $545 billion in 2006—are the financial industry's windfall, resulting from an economy that substitutes debt for earned purchasing power. These profits would have paid the entire 2006 Department of Defense budget with $126 billion left over and were larger than the GDP of 92 percent of the world's nations. While some of the profits support consumption through payment of salaries, dividends, and bonuses to financial industry executives, employees, and shareholders, much is plowed back into new lending. This contributes to further erosion of total societal purchasing power.

The data on financial industry profits also call into question the national rollback of usury regulation which started in the 1980s. Few realize that interest rates in the range of 6.5-7.5 percent, which are viewed today as "low," are actually higher than in times past. The average mortgage interest rate in 1960, for example, was 5.25 percent.

A working definition of "usury" has long been any interest rate higher than what can be justified by the lender's risk. This has been forgotten in the face of contentions by the Federal Reserve that raising interest rates is a monetary tool to control "inflation." The contentions are disproved by the fact that inflation was low in the 1950s and 1960s, when interest rates were below today's levels, but much higher since the 1970s. Thus the data suggest that high interest rates are actually a cause of inflation rather than a result.

A large portion of society's debt is incurred by the federal government, with the taxpayer eventually having to pay. Currently the national debt is over $8.84 trillion.

James Turk wrote in an report titled "Economic Suicide" in The Freemarket Gold and Money Report, March 2006: "…The dire financial straits the federal government is facing, its financial position, is even worse than it appears.…In the 2005 Financial Report of the U.S. Government, U.S. Comptroller General David Walker reported that, 'The federal government's fiscal exposures now total more than $46 trillion, up from $20 trillion in 2000.' Yes, it's insane. But it's even more insane that people buy the U.S. government's T-Bonds and T-Bills, thinking that they are a safe, low-risk investment."

In fiscal year 2000, 1.1 percent of the federal government's cash flow came from new debt. This soared to 20.4 percent in 2005. During that period, total federal debt grew 40.5 percent. Higher interest rates will produce a 9.3 percent increase in interest on the national debt in the 2008 federal budget that will lead to cuts in social services, education, and health care.

There is pressure from budget belt-tighteners to reduce the government's $46 trillion exposure by slashing future retirement benefits like Social Security or entitlement programs like Medicare, Medicaid, veterans' benefits, food stamps, etc. Thus the most vulnerable members of society are expected to pay for structural financial problems that have left the federal government, according to competent observers associated with the Federal Reserve, functionally bankrupt.

Federal debt is only one element of spending by all levels of government—federal, state, and local—which has become a major drag on the U.S. economy. Not only must U.S. wage and salary earners pay for the debt that supports their spending, they must also pay a cumulative tax burden equal to a third of their total income.

We pay as much in taxes as for housing, food, and transportation combined. Governments also take advantage of housing inflation by taxing newly assessed values to the point where people whose incomes don't keep up, and who may even own their homes outright, are forced to sell and move away.

Our inability to support our economy through earnings also results in the fact that the U.S. supports much of its enormous fiscal and trade deficits by selling securities to foreigners, who own 13 percent of U.S. stocks, 24 percent of corporate bonds, and 44 percent of Treasury bonds. It was estimated almost a decade ago that two-thirds of U.S. currency was in foreign hands. When foreigners bring their dollars into U.S. markets they drive up prices, especially of real estate.

As indicated earlier, another aspect of the problem is that the growing debt affects different economic classes in different ways.

According to the Congressional Budget Office, the top one percent of U.S. households owns 57 percent of all income, capital gains, dividends, interest, and rents. These super-rich, along with the upper middle class, are debt-free or are able to leverage debt profitably, and are often the owners and executives of the financial institutions to which the rest of us owe money.

The middle-class, declining as a proportion of the population, is under increasing pressure as debt eats up more of the family income. For them, debt is often a source of intense personal stress, the more so as family savings have plummeted, Many families have cashed in the equity in their homes for spending money, but the remaining equity is now at an all-time low proportionate to assessed value—55 percent in 2003 vs. 85 percent in 1950.

The working class or those in poverty or without jobs are being crushed. A low unemployment rate due to the creation of more "service economy" jobs may prevent mass starvation, but that's about all. According to *The Nation*, there is no longer any place in America where a person earning a minimum wage can afford even a one-bedroom apartment.

These people, living in the "fringe economy" and relying on payday loans, group housing, check cashing stores, and rent-to-own stores, are the prey of a growing industry of usurious lenders often backed by corporate financial giants. Perhaps a third of Americans, including tens of millions of the "working poor," are in this category, with their ranks growing daily.

Finally, there are the homeless, abandoned by the most abundant economy in the world, approaching a million in number nationwide.

What is the Bush administration, Congress, or the Federal Reserve doing to address the potential for financial catastrophe due to skyrocketing debt? The answer is, "nothing," unless you call making it more difficult for families to qualify for mortgages "doing something."

**WHAT CAN BE DONE?**

The one thing that is certain is that they don't have an answer.

The answer is not tighter regulation and more restrictions on lending, which may protect financial institutions from exposure, but do little to help consumers. Nothing is solved for the economy at large by forcing consumers to pay high rents instead of mortgage payments, postpone buying needed cars or other major household items, or get a low-paying job instead of going to college.

The answer is not for the Federal Reserve to cut interest rates, though it might help consumers a little in the short run. But too much damage has been done in the past with interest rate cuts that ignored economic fundamentals, such as the 2001-3 cuts that led to the housing bubble which is now deflating with drastic consequences. Besides, cuts are likely to cause the foreign investors to pull out of our investment markets, leaving us unable to service our gigantic existing debt load.

The answer is not to cut the costs of production. Employee benefits would be further decimated, more jobs would be eliminated or outsourced overseas, tax revenues would fall, and "fiscal austerity" would lead to more reductions in government social services.

The answer is not harder work or productivity increases. This may lead to more or cheaper goods, but since wages and salaries never keep up with productivity growth, the gap between consumption and production also grows. In fact, the more we automate, the harder we work, and the more efficient we become, the worse off we are financially! Again, it's because purchasing power never keeps up with production.

As indicated at the beginning of this report, higher taxation of the upper brackets and closing corporate loopholes would be more fair and would allow some degree of recovery of income derived from financial profiteering, but even this would not be nearly enough to cover the gap between GDP and purchasing power.

It is this gap, currently filled through debt, which is taken for granted and has never been properly investigated or explained by any official body. The debt taken out to fill the gap is the 600-pound gorilla in the room that the politicians and pundits have agreed to ignore.

It's a bleak picture, but not a new one.

President Franklin D. Roosevelt addressed the problem half-consciously with the massive spending programs of the New Deal. This was an attempt to overcome the shortage in purchasing power through a large federal deficit and a steeply progressive income tax, rather than placing the entire burden on middle and lower income citizens as the U.S. is doing today. The U.S. was finally able to work its way out of this crisis through spending on World War II and a large balance of payments surplus which continued into the 1960s. But with today's huge trade deficit, that solution is not available and, with monetary reform, would not be necessary.

But the situation still points to problems monetary reformers have been writing about for over a century. Unfortunately, for the last fifty years, since the New Deal faded into memory, our political leaders, the mainstream media, the establishment economists, and the financial and corporate vested interests, all of whom are free-market fundamentalists who believe government is helpless to remedy the situation, have ignored what the reformers have been saying.

For all of them, "growth" is the only answer to whatever problem may arise. But when growth in GDP falters, or is not matched by purchasing power, not only does it not improve conditions, it makes them worse. This is the underlying flaw in the system that cries out for an answer.

## C.H. DOUGLAS AND SOCIAL CREDIT

In 1918, Scottish industrial engineer Major C.H. Douglas published a book titled "Economic Democracy," where he wrote that several major factors associated with modern mechanized production resulted in a gap between the value of manufactured goods and purchasing power distributed through wages, salaries, and dividends. That is, he addressed the exact problem the U.S. and other developed economies were facing both then and now.

In a 1932 publication, *The Old and the New Economics,* Douglas listed several systemic causes "of a deficiency of purchasing power as compared with collective prices of goods for sale." These included business profits not distributed as dividends (retained earnings); individual savings, i.e., "mere abstention from buying"; "investment of savings in new works, which create a new cost without fresh purchasing power"; accounting factors, where costs previously incurred are carried over into current prices; and "deflation", i.e., "sale of securities by banks and recall of loans."

Other elements not mentioned by Douglas include insurance, which is costly in the U.S., maintenance of unused plant capacity, which is extensive due to the decline of U.S. manufacturing output, employer retirement contributions, and the cumulative sum of retained earnings and other cost factors when businesses buy from each other.

These factors all show up in the prices of goods and services but are not paid as earnings to individuals. A simple way to understand what happens is that prices that a business charges must not only pay for labor costs but must also cover all non-labor costs, as well as equip the firm to perform in the future.

Also, while the financial and accounting systems force consumers to pay for the costs of capital depreciation, they do not give them credit for appreciation of the value of the business that will appear through future capital gains. This applies particularly to technology-intensive companies where high R&D costs must be recovered in prices but do not show up proportionately in employees' immediate take-home pay.

Taken together, the impact of all these factors is devastating to consumers and the economy at-large, because we never earn enough to compensate for what the tax and accounting systems label as costs.

Douglas's analysis had solved the main financial problem of the industrial age, one which puzzled most of his contemporaries, including Winston Churchill, who said in a 1930 speech at Oxford: "Who would have thought that it would be easier to produce by toil and skill all the most necessary or desirable commodities than it is to find consumers for them? Who would have thought that cheap and abundant supplies of all the basic commodities would find the science and civilization of the world unable to utilize them? Have all our triumphs of research and organization bequeathed us only a new punishment: the Curse of Plenty? Are we really to believe that no better adjustment can be made between supply and demand? Yet the fact remains that every attempt has failed. Many various attempts have been made, from the extremes of Communism in Russia to the extremes of Capitalism in the United States. They include every form of fiscal policy and currency policy. But all have failed, and we have advanced little further in this quest than in barbaric times."

Churchill was speaking at the start of the Great Depression, which, with unsold milk being poured in the farm fields, was the classic case of society's failure to distribute what industry and agriculture were perfectly capable of producing. "Poverty in the midst of plenty," became the hallmark of the modern age and continues to roar down the world's highways with a murderous vengeance today.

But Douglas showed how to solve the problem by an analysis of the concept of "credit." He pointed out that there are really two forms of credit. One is "real credit," which equates to the total ability of a nation to produce goods and services through increasingly efficient use of science and technology. Another way to define "real credit" is to view it as "productive potential." The second is "financial credit" issued as loans by the banks.

Douglas made it clear that in a system where the banks have a monopoly on the issuance of credit, as ours does, they are the most powerful entity in the economy and therefore will be the most powerful politically as well. They will enhance their power, and their profits, by keeping financial credit scarce, so the amount they issue will never approach the amount of "real credit" that ultimately should derive from the bounty of the producing economy.

Even in a country like the U.S., where claims are made that credit is cheap and abundant, there are strings attached, simply because the limited amount of credit that financial institutions choose to make available obviously must be repaid and repaid with interest. Also, today's "low" interest rates are still higher than in the 1950s and 60s. And when the inevitable credit contraction comes at the downside of every business cycle, the wealth of society gradually but remorselessly fall into the creditors' hands.

Further, people don't realize how much events on the national and international scale are connected in ways that are not evident on the surface. Monetary decisions, for example, have more to do with determining the course of a nation's economy than any other factor. Similarly, it is the state of its economy that determines a nation's foreign policy.

The usual recourse taken by a society whose economy is strapped for purchasing power, Douglas said, is to try to export more than it imports to make up for the credit shortfall through a positive balance of payments. Because this leads to tremendous competition among nations for foreign markets as a matter of sheer financial survival, wars must result.

We can see that because the U.S. today has such a large trade deficit, even more of the production/consumption gap must be filled by bank-issued credit or by the conquests of war. This seems to be the case with the war on Iraq, whose real cause appears to be the desire for corporate profits through control of oil.

Douglas and his followers pointed out that war or mobilization for war also has the "benefit" of destroying or idling large quantities of production (bombs, missiles, tanks, airplanes, etc.), which otherwise society is unable to consume.

The war economy also props up the employment numbers. It was World War II that finally pulled the U.S. out of the Depression, and it is the huge quantity of deficit spending on the military-industrial complex which continues to anchor the U.S. economy today. This has happened in accordance with the Douglas model of a debt-based economy where people do not earn enough to buy what industry must produce to create jobs.

Critics may ask why, if Douglas's analysis is correct, is it not generally recognized and accepted? The answer is that it IS recognized and accepted, but only by the monetary reformers on the one hand and the financiers on the other. But the financiers, who own the mass media, are not telling the rest of us, because it's what makes them so rich and powerful. This is why William Greider titled his 1987 book on the subject, *Secrets of the Temple: How the Federal Reserve Runs the Country*. We are dealing here with the deepest secrets of the financial control of the world.

One final point about Douglas is to observe that late in his career he made remarks that have been interpreted as anti-Semitic when he pointed out that, historically, certain Jewish customs allowed them to take advantage of non-Jews in business dealings. He also pointed out, as have others, that many of the financiers engaged in the banking business have been Jews. Douglas attributed their success to a high degree of organizational skill and their ability to excel and take control in business matters.

But the Social Credit movement itself is not and has never been anti-Semitic. Nor is the author of this report, and neither is the worldwide monetary reform movement. In calling for change, we are talking about a new system, a new philosophy, and new laws based on principles of justice and democracy that are accepted everywhere, though often embattled.

The Jewish people are not responsible for the present crisis and did not create it. It's simply the way the Western economic system evolved. Finance capitalism came out of the Italian city-states. At various times it furthered industrialization by making credit available, but any system can be abused. Any system outlives its usefulness and eventually has to be changed.

**THE NATIONAL DIVIDEND SOLUTION**

The way out of the monetary dilemma, said Douglas, was not to opt for Marxism or socialism, because economic democracy cannot be achieved by another collectivist "-ism" to replace finance capitalism. Also, Marxism, like finance capitalism, assumes an economy of scarcity. It simply says that workers have a greater right to the limited supply of manufactured products than do business owners.

Douglas, by contrast, saw things through the eyes of an engineer. He saw that technology created a possibility of virtually unlimited abundance. He saw that workers' wages would fade away as a source of societal purchasing power as machines took over more of their work. But he also saw that this abundance could be distributed to those who needed and deserved it only if society took back its rightful prerogative of credit creation from the banks and made that credit available without hindrance to individuals.

Finally, Douglas saw that the distribution of credit could not be tied solely to work because many jobs would cease to exist through advancing automation. These were revolutionary ideas and remain so today. Enough people understood what Douglas was talking about that his ideas became a significant political force in Great Britain, New Zealand, Australia, and Canada. The Social Credit movement he founded still exists in those countries.

The primary method this system would use to implement public creation of credit would be through a cash stipend paid to all citizens known as a National Dividend. Because the dividend would be an expression of the sum total of the producing potential expressed as the "real credit" of the nation, it would be distributed as a book entry on a government ledger, not as a budget expenditure paid for by tax revenues. And the right to the dividend would not be tied to whether or not a person had a job.

Going back to the discussion at the beginning of this report of the $12.98 trillion 2006 GDP vs. the $9.21 trillion in purchasing power generated through wages, salaries, dividends, etc., recall that the $3.77 “gap” that should have been viewed as an overall dividend to society instead had to be financed by debt.

Now we’ve come full circle. It’s the National Dividend of the Social Credit system that explains the gap and would in fact provide it to the residents of the nation as their rightful benefit from creating, operating, and maintaining our wondrous economy. It’s society as a whole which created our economy, and we are the ones who should benefit from it.

A Social Credit system would be implemented through simple bookkeeping. The funding of the National Dividend would be drawn from a national credit account which would include all factors which give rise to production costs and create new capital assets.

The national credit account could also be used for price subsidies. Prices in the U.S. are generally too high, leading manufacturers to cut costs by shipping jobs overseas. But it is simply wrong that the hard work we do for our standard of living should turn against us and end up taking away our jobs. A program of price subsidies would allow us to stop penalizing our workers for their high levels of productivity and could be funded as another element of the National Dividend.

You might ask at this point, is a National Dividend simply having the government “give away” money created out of “nothing”? If so, it’s the same “nothing” from which banks make loans under their “fractional reserve” privileges, using as a base a small collateral of customer deposits and government securities. The difference is that bank loans must be repaid, while payments under a National Dividend system would not.

Thus the National Dividend would be real money, unlike Federal Reserve Notes. These are a substandard type of money, since each one is entered into circulation only through a debt payable to a bank with interest. But the National Dividend is not “free” money. Rather it’s the result of a powerful, productive, and scientific economic system that has developed over the course of centuries and today is so strong that some of its benefits can and should be made available to everyone in society without their having to work as hard to enjoy them.

A National Dividend would represent the true wealth of the community, the bounty of our incredible GDP and our amazing efficiency, of which all citizens should be the rightful beneficiaries once the business owners receive a reasonable profit. Again, it’s important to realize that Social Credit is not a socialist system. Rather it is “democratic capitalism,” in contrast to the “finance capitalism” that has become so damaging.

We must realize too that while “democratic capitalism” has been talked about, and is the basis of the idea of widespread stock ownership, it has never been implemented as the driving principle of a developed economy. Rather the cream is always skimmed off the top by the financial elite through their control of credit-creation.

Again, the heart of the Social Credit program is the fact that the collateral base of the government-managed National Dividend, as with all sources of legitimate currency, would be the productive capacity of the economy expressed as GDP. This is what already stands behind “the full faith and credit of the United States.” This is the true “credit” of the nation.

It's what provides the real "backing" of the currency.

Viewed from a philosophical level, the national credit, including that portion from which the National Dividend would be drawn, is the monetization of an intangible; i.e., the totality of the nation's real wealth as expressed by its laws, history, physical plant, land, resources, and the education, skills, and character of its people. Without all of these, the government could print dollars—or the banks could lend them—from here to eternity, and they would be totally useless.

Under a Social Credit system, banks would continue to function in limited ways, but they would not have the privilege of funding the entire shortfall in purchasing power of the nation.

Instead, if we'd had a Social Credit system in place, the $3.77 trillion gap in the 2006 U.S. economy between production and earnings—the bounty of our productive genius—would have been bridged by a National Dividend averaging $12,600 for every man, woman, and child (legal resident or citizen) in the nation.

Looked at from another angle, this payment has some relationship to a "basic income guarantee," which has been advocated by many economists, politicians, and reformers in the U.S. for decades, including Milton Friedman and Dr. Martin Luther King, Jr., and which is the idea behind the current citizens' dividend of about $1,000 per resident under the Alaska Permanent Fund.

The difference between a National Dividend and a basic income guarantee is that the dividend is tied to production and consumption data and may vary from year to year. During years that the dividend fell below a designated threshold, the balance of a basic income guarantee could be provided from tax revenues. But in a highly-automated economy such as that of the U.S., the National Dividend would normally be sufficient.

One use individuals would be likely to make of their dividend would be to pay down personal, household, or student debt, though some of that debt should be written off by restoration of a more reasonable—i.e., pre-2005—federal bankruptcy law. Further, if the dividend were reduced to an average of $10,000, the additional $2,600 could be used to pay down the principle on the $8.84 trillion national debt as well. The entire debt could be retired in eleven years, with interest being funded from tax revenues as it is today.

**WHAT ABOUT INFLATION?**

Bankers and their apologists have always argued that any program of publicly-generated credit would cause inflation. This is nothing but propaganda.

Because a National Dividend would replace bank-credit of the same amount, it would bring the total monetary supply of the nation only up to the level of the GDP. It would not result in "more dollars chasing the same amount of goods," but would simply bridge the gap. Not only would the National Dividend be non-inflationary, it could even be counter-inflationary by liquidating previous financial costs without creating new ones.

Besides, what is truly inflationary is the Federal Reserve's policy of creating, then deflating, asset bubbles, the latest being the housing bubble. With such bubbles, prices inflate on the way up, but only level out on the way down. This can do irreversible structural damage to the economy.

Inflation due to the housing bubble has affected not only home prices—it has also escalated rents and business leases, made it harder for people to start small businesses, and difficult for young people even to find a rented room. Meanwhile, home and property ownership is becoming a high-priced commodity available only to the rich.

This type of inflation has an immense ripple effect. What it means is that the dollars people earn can purchase less throughout the economy, because every business must operate in a building and on a parcel of land which now costs much more.

The housing bubble has been a catastrophe to democracy. With the Federal Reserve at the helm and the private banking industry in charge of credit, the dollar has lost almost 90 percent of its value since 1960. Since the early 1970s, virtually every period of economic growth has been a Federal Reserve-created bubble, with the Treasury Department helping out in the early 1990s with a strong-dollar policy that contributed to the dot.com bubble. With every cycle, more and more assets fall into the hands of the wealthy, including both U.S. and foreign investors.

Also, bank interest by itself is inflationary, because it adds to the cost of doing business at many points in the production-consumption stream. The Federal Reserve claims it is fighting inflation when it raises interest rates, but what it actually does is slow down economic activity by suppressing wages and salaries or throwing people out of work. The higher interest itself pulls in the other direction by adding to costs. Thus inflation has continued even during periods of monetary contraction, as in the1979-83 recession when the consumer price index rose almost 20 percent.

Another point on inflation is that under our system of bank-created debt-based credit, businesses inflate their prices to make paying their debt cheaper, as does the federal government. A government like ours that is deeply in debt always wants to pay with dollars of less value, so it pursues inflationary policies in order to push taxpayers into higher tax brackets. This is yet another way a bank-centered monetary system distorts real economic values and hurts working people and families.

Management of a modern producing economy the way the Federal Reserve does by raising and lowering interest rates is a travesty. With no participation by any elected official, and with the most superficial explanations, the Federal Reserve can and does alter the value of all the money in the United States. The U.S. courts, were they willing to face down the financiers who are the de facto controllers of the Federal Reserve, could easily rule that this is an unconstitutional confiscation of property without due process. At times, as in the early 1980s, when the Federal Reserve devastated the economy with interest rates of more than 20 percent, its actions are simply a crime.

Such an event can have far-reaching and even catastrophic consequences. When the Federal Reserve decided in 1979 to begin a radical escalation of interest rates to combat the inflation of the 1970s, it took the Carter administration by surprise. After President Ronald Reagan took office in 1981, the top echelons of his administration reacted to the Federal Reserve's actions with dismay.

The economy was collapsing in the worst recession since the Great Depression. But instead of confronting the Federal Reserve and its financial controllers, the Reagan administration took a series of radical actions to slash tax rates for the upper income brackets, deregulate the banking system, add huge sums to the national debt by throwing deficit-produced dollars at the military-industrial complex, and commence a new era of low-scale proxy warfare in Afghanistan, Angola, El Salvador, Nicaragua, and elsewhere known as the "Reagan doctrine."

President Reagan was so relieved when the Federal Reserve finally relented by lowering interest rates in 1983, he declared in his 1984 reelection campaign that it was "morning in America." But instead of facing up to and addressing the monetary actions taken by the Federal Reserve which ended up damaging our industrial infrastructure and leaving us with today's anemic "service economy," the Reagan administration panicked and set in motion a complex series of compensating actions that ignored the underlying monetary issues.

As a current example of how the system works, in early 2006, the Federal Reserve announced an interest rate hike after data came out which showed that U.S. workers were seeing their pay go up a tenth of a percentage point higher than expected.

As a result of these kinds of interest rate increases, hundreds of thousands of people pay higher rates on their adjustable rate mortgages, foreclosures of homes increase, tens of millions pay more interest on their credit card balances, and the loans that fuel the American economy, paying for everything from raw materials to inventory and transportation, cost more. Also, business and individual bankruptcies increase, workers and salaried employees are laid off, and, in the example cited above, the stock market took a hit, with hundreds of millions of dollars of value lost in a single day, wealth that simply vanished.

The correct term for such a system is "monetary hell."

Reducing the payment of interest to banks through monetary reform would lessen inflationary pressure and eliminate the policy whereby the Federal Reserve tries to create "price stability" on the backs of working people. Its policy, which is the essence of so-called "monetary targeting" or "monetarism," and which is fully supported by a Congress dominated by monetary conservatives from both political parties, is really one of class warfare. As U.S. billionaire investor Warren Buffett has said, "There's class warfare, all right, but it's my class, the rich class, that's making war, and we're winning."

## BENEFITS OF A NATIONAL DIVIDEND SYSTEM

The method by which the Federal Reserve attempts to manipulate the economy by adjusting interest rates is not only destructive and tends to further the long-term interests of the financiers to the detriment of society, it would be completely unnecessary under a National Dividend system.

Under a National Dividend system with periodic cash stipends, most people would work anyway, but they would not have to work so much, and if they wanted to take some time off, stay home and care for children or the elderly, take lower-paid positions in education or the arts, or learn a new profession, they could do so.

At last there would be a leisure dividend. Of course this goes counter to many of our prejudices, including fundamentalist notions that man is meant to toil and suffer. In practice, of course, those who toil and suffer exclude the monetary controllers.

Another way to look at it is that a National Dividend could at last provide enough personal freedom that all our time and energy would not have to be spent just keeping our bodies fed, sheltered, and clothed. We would be free for more important cultural and spiritual pursuits. Who knows what forms society might take or what we might accomplish if the individual were liberated from the crushing demands of economic necessity?

Another prejudice to overcome is the idea that if we just “give people money” they will waste or abuse it or become alcoholics or drug addicts. But people tend to respond positively to social benefits and make the most of opportunities when presented. Slackers always must face their own consciences and generally find it easier to live up to community expectations than live as self-indulgent outcasts.

Also, neither Social Credit nor a basic income guarantee is a “free money” program. A strong, functioning economy is required. Freedom must be earned. And it has been earned in our mature, highly-developed economy.

Besides, what really turns people into alcoholics or drug addicts is a pressure-cooker economy like we have today. Maybe this is why, according to a report that came out in March 2007 by the National Center on Addiction and Substance Abuse at Columbia University, forty percent of college students are binge drinkers and twenty-three percent meet the medical criteria for substance abuse.

Part of the problem is likely that students are staring at a future of huge debts and few good jobs, where the rich rule the world and the rest struggle to survive. Financial conditions may be reflected in young peoples’ attitudes, where, according to the Higher Education Research Institute, the proportion who say it is “essential” or “very important” to be “very well-off financially” grew from 41.9 percent in 1967 to 74.5 percent in 2005, and “developing a meaningful philosophy of life” dropped in importance from 85.5 percent to 45 percent. According to a Gallup survey, 55 percent “dream about getting rich,” though few ever will.

For now, let’s leave it to the imagination of the reader to ponder further the social, political, and economic benefits of a national credit program, including the effects on the lives, aspirations, and attitudes of our youth. As you do so, realize that it could mitigate many of the economic causes of the drive toward war that are threatening to blow up the world in Iraq and elsewhere; i.e., competition among nations for markets and resources and use of war expenditures to create jobs and profits. It would also provide the first real opportunity in decades for economic decisions to be made on the basis of other considerations than financial profits—such as what economic policies would benefit individuals, families, or the environment.

This change could result in another dividend—the elusive “peace dividend,” where tax money saved from no longer needing to conquer the world to prop up our collapsing debt-based financial structure could be used for such urgent priorities as environmental protection and clean-up, infrastructure maintenance, and alternative energy R&D and conversion. A 50 percent cut in military expenditures would yield over $300 billion per year for these and other beneficial purposes.

## PUBLIC CONTROL OF CREDIT

Finally, a comprehensive monetary reform program could also shift a certain amount of credit creation through lending to the federal government, away from the private banking industry, which has held that monopoly in the U.S. most of the time since the creation of the Federal Reserve System. This would reflect the fact that credit should really be viewed as a publicly-regulated utility like water or electricity. Overall monetary targets could be overseen by a Monetary Control Board within the U.S. Treasury Department, as advocated by the American Monetary Institute in its model legislation, the American Monetary Act.

The logic of publicly-controlled credit is obvious. If government has the authority to charter banks to issue credit through loans against a small reserve of deposits, it could just as easily issue credit itself against a reserve of tax receipts or even against the "real credit" of the nation's GDP. Because government would not have to earn a profit on lending, it could offer credit at much lower rates of interest, only enough perhaps to cover administrative costs.

An example of how public credit can be used successfully was the Reconstruction Finance Corporation which provided the U.S. economy with billions of dollars in low-interest loans from 1932 to the early 1950s. Another example was the Home Owners Loan Corporation which took over the mortgage industry from Wall Street speculators during the New Deal and established secure home ownership through low-interest fixed-rate loans as the basis for middle class financial security. This system was eventually destroyed by the deregulation of the 1980s.

Efforts to create a new basis for public credit today could restore programs like the RFC or HOLC and lead to low or even zero-percent interest lending programs for state and local infrastructure projects through a self-capitalized federally-sponsored infrastructure bank. Funds could also be distributed from the national credit account as grants. Public credit for infrastructure investment could become a vehicle for shifting the U.S. economy back in the direction of heavy manufacturing and helping to restore our status as the world's leading industrial democracy.

Public credit could also be used to provide or subsidize inexpensive loans at the local level for consumers, students, and small businesses. These loans could be made available at interest rates as low as one percent. Such a program could be implemented by having the federal government lend money at low interest to commercial banks from a national credit account. The banks would then use the money to fund consumer loans while charging only an additional administrative fee plus a reasonable business profit.

Through a National Dividend and publicly-regulated credit, rural and small-town America, as well as Native American communities, all of which have had the life sucked out of them by poverty and debt, would vastly benefit, as would our center cities. In fact, a rebirth of local culture and self-sustainability, which various half-hearted and heavily bureaucratized federal programs have tried unsuccessfully to address, could at last be possible.

The monetary reform program would address several of the biggest social and economic problems, including lack of income security. Without income security, we can't even start to solve many other problems, because we have to work so hard just to keep our heads above water. And more of us are going under all the time. There was a time in American life when the leaders of government and business calculated what people needed for a decent life and tried to provide for it. Those times are gone. People today have been tossed to the corporate and financial wolves.

A broad-based program based on public control of credit-creation would replace a financial system that benefits mainly the financial plutocracy with one that supports democratic values and local financial needs. It would give back control over their own lives to individuals and communities. It would immediately relieve some of the most serious sources of economic and political tension that are driving the world toward more and bigger wars. And by facilitating self-sustaining local economies both at home and abroad, the program would reduce the pressure for the large and powerful nations of the West to prey on the rest of the world.

**ECONOMIC POTENTIAL**

Finally, a point should be made that would take another lengthy report to elaborate, which is that our existing economy, where GDP cannot be purchased by the cumulative national income unless it is heavily augmented by debt, is an economy operating in a straightjacket. Even with a $13 trillion GDP, it is an underperforming economy, one which is not even close to its full potential. It is another secret of high finance that its overall effect under today's conditions is actually to throttle legitimate economic activity, not facilitate it.

If the national credit were free to expand along with production, there is no reason why our GDP could not be much higher than what it is today, except that it would be distributed more democratically. This level of abundance need not be environmentally damaging, because it would include the application of technology to mitigate environmental hazards and develop new materials and processes.

The abundance would have the effect of raising the standard of living for everyone in society. The same methods could be applied in other developed and developing nations. The fact that we have not allowed science and technology to reach this level of potential is another manifestation of the misuse of financial credit to create an unnatural scarcity which benefits only the financial controllers.

Also, increased economic activity would not necessarily lead to out-of-control world population growth, as a society's birthrate tends to decrease through voluntary means as it becomes more prosperous and stable.

**IMMEDIATE STEPS**

Viewed from the perspective of this report, world history over the last 100 years is starkly simple. The aspiration of every nation, regardless of its economic habits and ideology, has been to maintain something resembling income security for its population. This is natural; above all, people want to live.

But science and industry have made it possible to satisfy human needs without full employment, leaving the gap between purchasing power and production which this report has explained. But instead of supplying its citizens with the needed National Dividend, governments have tried to fill the gap through a welfare state based on income redistribution, through socialist state controls, through bank-furnished credit, or a combination.

No approach yet devised has resolved an inherently unstable economic situation that is endemic to a technological economy that refuses to operate on the basis of truly democratic principles.

The U.S., among nations, has had the most success in creating a measure of stability but has been able to do so only through economic domination of the rest of the world as a means of filling the production/consumption gap. This domination began with the massive loans to the European combatants during World War I, continued through the lend-lease program of World War II, and reached its zenith through the economic recovery measures after the war, the aim of which was to maintain for the U.S. a positive trade balance. Thus was formed the basis for U.S. prosperity during the 1950s and 1960s.

This trade domination began to expire with the Vietnam War and had evaporated by the 1970s. After the fall of Saigon in 1975, the only way the U.S. saw to keep its economy afloat was through the policy of dollar hegemony, where use of the dollar was established for oil trading and as a worldwide reserve currency. With the Reagan administration came the habitual resort to military power as the enforcer of U.S. financial prerogatives. This is what accounts for the period of incessant low-key warfare that has controlled U.S. policy since the late 1970s, with the "War on Terror" and the military invasions of Afghanistan and Iraq being only the latest phase.

Today, as U.S. dollar hegemony, along with our domestic economy, begin their collapse, through laws as immutable as those of physics, the threat of world war has returned. But another world war would not produce economic stability. The only way to achieve that objective is through real economic democracy as described in this report and in similar writings by other monetary reformers. But the cost of doing so, as seen by the financial and political establishment, would be to give up their near-total control of society.

In conclusion, it should be clear that this report takes an optimistic view of mankind, its aspirations and potential. And it affirms the positive value of science and technology. Human beings were created in the image of God, and God does not want us to be miserable on a planet where all can be provided for.

Obviously it would take a book to describe a complete monetary reform program to take us in this direction. This report has put forth some key concepts. For now it is enough to summarize the way out of our economic dilemmas by recommending that the federal government take the following steps:

1) Issue a $10,000 average dividend, created simply as an accounting book entry, to every U.S. legal resident or citizen (to be determined), tax-free and without reducing any other benefits currently being paid. A sensible ratio between adults and children would be calculated. A temporary system of price controls would be instituted to prevent profiteering.

2) Create a second dividend which totaled approximately $800 billion as a first installment on paying the principal on the national debt and freeze the purchase of U.S. assets by foreign holders of U.S. debt instruments until currency exchange programs can be put into place. (The dividends paid to individuals and for repayment of the national debt would equal the gap between GDP and purchasing power for 2006.)

3) Continue to issue both dividends for each future year based on the calculated gap between GDP and purchasing power.

4) Utilize the money saved from no longer having to maintain an aggressive military posture overseas to compensate for monetary problems by addressing urgent priorities such as alternative energy R&D and restore more progressive tax rates for the highest income brackets.

5) Create a self-capitalized national infrastructure bank to lend or provide grants to state and local governments for infrastructure maintenance and development with provisions for

use of U.S.-made products.

6) Use federally-created credit or resources to subsidize local banks in providing low-cost credit to consumers, students, and small businesses.

7) Create a Monetary Control Board within the executive branch to regulate the U.S. monetary system, determine the amount of the National Dividend, assure the stable value of money, and oversee both private and public use of credit. (For additional provisions of the American Monetary Act, see the American Monetary Institute website at www.monetary.org.)

8) Return to the more forgiving pre-2005 bankruptcy laws and offer genuine debt relief to nations which owe money to banks and international lending agencies.

9) Move toward a national system of “fair pricing” subsidies using national credit as a funding base.

10) Support the adoption of a similar monetary program for other nations of the world.

To implement this program, Congress could pass a series of laws which would have the effect of taking back the people’s Constitutional prerogative over their monetary system and laying the basis for future prosperity. These laws could help to usher in a new age of humanity. In fact, the agony of degradation and violence the world is now going through may someday be seen as the birth throes of a new age of economic enlightenment. A key would be a democratic monetary system which opens the door to material abundance for all people.

We know that the financial industry which controls the economy and politics of the world might have to be persuaded to support these proposals. The chief argument may be this: Yes, you have become rich through your monopoly over credit. Yes, you preside over the economies of most of the world. But don’t you see that you have bled the life out of the people who just want to live and work? Don’t you see that it is their labor that is keeping you alive too? Don’t you think that if society destroys itself from war, financial collapse, and pollution you might lose your own livelihood and ability to sustain yourselves?

So why don’t you join us in making a better world, even if it means altering a financial system that has the momentum of centuries behind it but that today is choking the aspirations of humanity like a dead hand?

Shouldn’t we make a start by addressing our economic problems rationally and democratically through a monetary reform program that benefits everyone, that properly rewards us for our miraculously productive economy, and that has a good chance of success if we embrace it with determination and hope?

The only question at this late stage may be whether economic democracy will be achieved through a process of peaceful reform, or whether it will be built on the ashes of whatever is left of world society after the likely coming catastrophe.

**IN THE MEANTIME**

There is much that individuals, families, and groups can do right now to address the effects of the economic crisis in their own lives. These measures exist on the material, mental, and spiritual levels. Following is a short list:

1. Don’t borrow. What enslaves us to an economic system in a chronic state of collapse is, above all, our debts. Throw away credit cards. If it makes sense to do so, rent instead of taking out a mortgage to pay the inflated prices of today’s housing. Work for a year or two and save for college. If your debts are overwhelming, don’t be afraid to declare bankruptcy or look for other options. If you have money, put it into tangible assets before its value is destroyed by inflation.

2. Think for yourself. Search for reliable information about the economic and political situation and the true reasons for wars and other forms of organized violence. Read books and turn off the TV and video games. Discuss ideas and issues with your kids, family, and friends. Start a website which expresses responsible opinions and offers help and information to others.

3. Hone your skills. Do your own car and household repairs. Grow and cook your own food. Shop at thrift stores. If you can, raise farm animals. Take classes in handicrafts. Start your own part-time business. Take a job doing manual labor. Demand that the local schools teach practical skills to young people.

4. Work with others on creating democratic intentional communities. Explore group housing. Live near mass transit commuting lines. Set up barter groups and consider establishing local currency systems as many people did during the 19th century and the Great Depression. In the last two years there have been a number of new communities being started in small towns or rural areas as people have seen the writing on the wall about what may be coming to an endangered American economy.

5. Become politically active. Register, vote, and demand honest elections. Support politicians who have integrity. Demand changes along the lines suggested in this report, as well as consumer-friendly laws and regulations, including those that favor mass transit and affordable housing. Lobby locally for public space for farmers’ markets and commitments by government agencies to buy from local small business. Don’t allow government to drive people out of their homes with property tax increases or to seize private property on behalf of developers.

6. Work with schools and expect them to teach democratic ideals including economic reform. Honor those who speak truth to power and let the government know that the Bill of Rights means something to you. Demand local programs to help people avoid and get out of debt. Let the local media know that you want to see reporting on real issues and more public interest programming. Boycott companies, retailers, and media outlets that oppose reform.

7. Remember that external circumstances have no power. We tend to be overwhelmed by the apparent strength of government, corporations, employers, banks, our credit rating, the economy, the media, armies, technology, our endangered possessions, etc. The power of these things is illusory and is based on the dualistic conceptions of the human carnal mind. In reality, God is the only

source of power in the universe, and the more we realize God's presence, the less do we fear externals. Search for God within. Every person has a higher self, which is God, and which may be sought and found through prayer and meditation.

**THE LAST WORD**

We'll give the last word to Edward Kellogg (1790-1858), an American businessman who published his ideas about monetary reform in *Labor and Other Capital* in 1849. Kellogg favored consumer lending at as little as one percent interest, as advocated earlier in this report. This lending would originate from a government-operated credit account he called a Safety Fund. Kellogg's ideas were well-known among American progressives during the latter part of the 19th century and are drawing attention again today. The following excerpt is from *A New Monetary System* published posthumously in 1875.

"This money power is not only the most governing and influential, but it is also the most unjust and deceitful of all earthly powers. It entails upon millions excessive toil, poverty and want, while it keeps them ignorant of the cause of their sufferings; for, with their tacit consent, it silently transfers a large share of their earnings into the hands of others, who have never lifted a finger to perform any productive labor.

"The same power has grossly deceived our public teachers; for not being able rationally to account for the great inequalities of wealth and condition existing in society, and being expected to furnish a satisfactory explanation in some way, they tell the people that these great wrongs are providential, that they are the mysterious workings of the providence of God, that all these evils are governed and controlled by His power and goodness.

"This method of accounting for the gross political wrongs in society has covered up and hidden from view a multitude of heinous sins. Notwithstanding the number of those who now live in luxurious idleness, performing little, if any useful labor, and the great number of those who remain idle because the scarcity of money renders it impossible for them to obtain work, yet with all these impediments, there is generally enough produced each year in each nation to give to every man, woman and child a comfortable living.

"Every person of common sense must see that God in his providence has bountifully provided for man and that there is some other power working against him, and diametrically opposed to the righteous distribution of his bounties. It is the providence of the national laws, establishing this unjust power of money, which robs the producing classes of their rights.

"As the bounties of God are abundant, so must the money for their distribution be abundant, or they can never be justly distributed. If the scarcity of money or its centralizing power retard the production and the distribution of the products of labor, the power of the money is unjust and oppressive, and instead of being in unison with the providence of God, it is the most powerful opponent of his righteous laws, as well as the most powerful and bitter opponent of justice and beneficence among men.

"It would be as reasonable to expect sweet waters to flow from a bitter fountain, as to expect just distributions of property if the standard by which it is valued is unjust. We are not depicting an unknown evil. Legislators, financiers, and the producing classes all know that money is possessed of some mysterious evil power, which has never been clearly explained and defined.

"We have intended to remove this mystery concerning the nature and operations of money, and to show what laws must be annulled, and we shall proceed to show what other laws must be enacted, in order to establish money that will be endowed with an equitable power. The evil power of money has been politically established, and it must be politically annulled. It is a public wrong, and the public must administer the remedy."

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