Financial Bailout: FINALLY Someone Said "No"

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SEPTEMBER 29, 2008—FINALLY, someone said "No" to the criminal gang that runs the U.S. economy when the House voted down the Bush-Paulson $700 billion Wall Street bailout plan by a vote of 228-205.

Shame on the Democrats! Speaker of the House Nancy Pelosi, Majority Leader Steny Hoyer, and Majority Whip Rahm Emanuel delivered "yea" votes from 60 percent of Democratic House members and thereby gave the bill the only chance of passage it had.

Hooray for the Republicans! The bill went down to defeat only because 67 percent of House Republicans voted against it.

The bailout bill is one of the most critical ever brought before Congress. The Republicans who defied President George W. Bush, Secretary of the Treasury Henry Paulson, and the House leadership did so because their constituents demanded it. Ideologically, they acted to let the free market do its work. If overextended financial institutions which had invested recklessly go bankrupt, so be it.

For Democrats who voted against the legislation, the rationale was more complex—not enough taxpayer protection and too little help for homeowners facing foreclosure who would lose their homes even with the bill. But they also bucked the leaders of a party which, since pro-business Democrat Bill Clinton won the presidency in 1992, has completely sold out to the financier elite. Since then, Wall Street investment firms have been the principal bankrollers of a party that in recent years has totally betrayed its New Deal roots.

However it happened, the result of today's vote was momentous. After rolling over and playing dead for the financial elite that has held the U.S. economy in a death grip due to the deregulation of the last quarter-century, a majority in Congress stood up and said, "Enough," even after the two parties' presidential candidates, Democrat Barack Obama and Republican John McCain discredited themselves by voicing support.

Of course the financiers and their many political lackeys attempted to blackmail the country by claiming the economy would seize up and the stock market crash without the legislation, and, in a self-fulfilling prophecy, the Dow-Jones went down 777.68 points today. Traders interviewed on CNN said that if a bill were not passed before the session ended in a week, the fall could amount to 2000 points.

But so what? Everyone knows that the peak of the stock market last year—over 14,100 points—was the result of the bubble economy. Now that the bubble is bursting why shouldn't the stock market find out where it really belongs, along with the prices of houses, as well as the worth of the banks and stock brokerages that got us into the mess?

So now what happens? It is unclear whether the House leadership will try to revive the bill or just let the voters decide in November who they want to step in to fix an economy which Bush, Greenspan, and their enablers in Congress have ruined.

What then can be done? Well, no one in government has much of an idea, and the huge number of commentators writing about the debacle in print and on the internet and talking about it on TV have offered literally thousands of suggestions. These range from returning to the gold standard to another New Deal. But few of these suggestions really get to the heart of the matter.

We do know one thing—unfettered finance capitalism as a national economic engine, which was the solution offered by Ronald Reagan and his supply-side, trickle-down "revolution," has totally, dismally, hysterically failed. And we might suspect the same thing of a return to New Deal Keynesianism—i.e., more federal deficit spending—which is what the progressives are offering in an infinite number of disguises.

In discussing the Keynesian alternative, we should remember that it wasn't until World War II that the Roosevelt administration was able to use Keynesian economics to produce full-employment. So do the new New Dealers want a World War III for the same ends?

They wouldn't admit it, but let's be honest. No nation on earth has yet implemented a stable industrial economy. In fact, there is one honest man writing about the crisis. His name is Robert Samuelson, and he is the economics writer for the *Washington Post*. What Samuelson is saying is absolutely true. This is that no one knows what is going on and no one knows what to do.

He writes:

"What we are witnessing, in the broadest sense, is the bankruptcy of modern economics. Its conceit has been that we had solved the problem of stability. Oh, there would be periodic recessions, but the prospects of a major economic collapse were negligible because we knew how the system worked and could take steps to prevent it. What's been so unsettling about the present crisis is that it has not conformed to the standard model of business cycles and has not submitted to familiar textbook solutions."

He goes on to point out the major economic issue of the industrial age is not "supply" as the monetarists—a.ka. Reaganite trickle-downers—said *ad nauseum*, but *demand*:

"The word that best epitomizes mainstream 'macroeconomics' (the study of the entire economy, not individual markets) is *demand*. If weak demand left the economy in a slump, government could rectify the situation by stimulating more demand through tax cuts, higher spending, or lower interest rates. If excess demand created inflation, government could suppress it by cutting demand through more taxes, less spending, or higher interest rates."

"Demand" means, quite simply, "purchasing power." The trouble is that a modern industrial economy does not produce enough purchasing power through wages, salaries, and dividends to buy what is produced at prices that must be charged to keep the system running. There is a gap, which was Keynes' main point. The gap exists because of savings, or "retained earnings," needed for reinvestment to keep the system operating and innovating. Without this savings, the system runs down due to entropy, or the law of diminishing returns.

Few of the writers commenting on the current economic situation—including most professional economists I've read on the subject—understand this basic point of Keynes' thesis. That's why none of their solutions ever work.

As I said, Keynes wanted to fill the gap through government deficit spending—pump priming. Supply-siders want to fill it by, well—by nothing. They don't recognize the gap. They think that if more is produced, more will be bought, and there will be more income to do it. This is because they believe in "Say's Law," an early 19th century formulation that worked for medieval village economies—as did Adam Smith's free-market ideas—but not modern industrial ones.

Still, the gap has been filled, except it has been filled by debt, by consumer borrowing, and by the hundreds of different kinds of exotic debt instruments dreamed up by Wall Street firms since Reagan took office in the 1980s. This debt pyramid is what is crashing today.

And behind all the exoticism is the debt-based monetary system run by the banks who own the Federal Reserve, because it is these banks that provided the leverage for it all to happen. It's the banks that leveraged the bubbles—the merger-acquisition bubble, the dot.com bubble, the housing bubble, the commercial real estate bubble, the equity bubble, the hedge fund bubble, the derivative bubble, the commodity bubble, and on it goes.

So this is what deregulation has done for us. It may very well destroy the U.S. economy. It is already destroying democracy, because the social stress the system has produced is a hot-bed for every type of illness and social break-down and also feeds the anxiety that sees a terrorist under every bed and leads to wars and international crises as well.

It's the big banks that have been the winners, at least so far. Citibank is eating Wachovia. Bank of America ate Merrill Lynch. J.P. Morgan Chase is eating Bear Stearns and WaMu. They are paying $1.9 billion for WaMu which has assets of $310 billion. Of course the latter is the bank of David Rockefeller and his family, so they are not doing too badly. The Rockefellers also own much of Exxon-Mobil, which continues to run record profits due to the oil price run-up.

But then the system was set up to benefit people like the Rockefellers and their ilk in the first place. That's why we got the Federal Reserve System, because the bankers of the world already knew in 1913 that if they could control the currency and introduce money into circulation only through public and private debt they would be the big winners when the incredible productivity of modern industry became manifest.

And what is a real solution? It's a dividend-based economy, as I have written many times, and as the Social Credit movement in Great Britain , Canada , Australia , and New Zealand have known for decades. What we should do is monetize savings and retained earnings by issuing a corresponding dividend to the consuming population to balance production and be able to purchase what industry can produce through a non-inflationary production-based monetary system.

This is how credit really should be used. You can read about it in the many articles I have written over the past year or in my forthcoming book: *We Hold These Truths: The Hope of Monetary Reform* (Tendril Press, 2008). Among many other benefits, we would have a rebirth of local and regional economies as well as family farming, all of which the banks, under the global monetarist regime, have wiped out.

So that's what happened today in Washington . But just remember, it's the big banks that are really the ones behind the bailouts. They are the ones who call the shots with the Bush administration and the leadership of both the Republican and Democratic parties.

But thank God a few real "mavericks" in Congress left the reservation today. Will they have the guts to continue to "just say no" and make a real change in U.S. politics? Was this the day the revolution began? Or just a final rear-guard action in the death of American democracy?

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