IMF "Economic Medicine" Comes to America

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In addition to mandatory private health insurance premiums, we may soon be hit with a "mandatory savings" tax and other belt-tightening measures urged by the President's new budget task force. These radical austerity measures are not only unnecessary, however, but will actually make matters worse. The push for "fiscal responsibility" is based on bad economics.

When billionaires pledge a billion dollars to educate people to the evils of something, it is always good to peer closely at what they are up to. Hedge fund magnate Peter G. Peterson was formerly Chairman of the Council on Foreign Relations and head of the New York Federal Reserve. He is now senior chairman of Blackstone Group, which is in charge of dispersing government funds in the controversial AIG bailout, widely criticized as a government giveaway to banks. Peterson is also founder of the Peter Peterson Foundation, which has adopted the cause of imposing "fiscal responsibility" on Congress. He hired David M. Walker, former head of the Government Accounting Office, to spearhead a massive campaign to reduce the runaway federal debt, which the Peterson/Walker team blames on reckless government and consumer spending. The Foundation funded the movie "I.O.U.S.A." to amass popular support for their cause, which largely revolves around dismantling Social Security and Medicare benefits as a way to cut costs and return to "fiscal responsibility."

The Peterson-Pew Commission on Budget Reform has pushed heavily for action to stem the federal debt. Bills for a budget task force were sponsored in both houses of Congress. The Senate bill was narrowly defeated, and the House bill was tabled; but that was not the end of it. In Obama's State of the Union speech on January 27, he said he would be creating a presidential budget task force by executive order to address the federal government's deficit and debt crisis, and that the task force would be modeled on the bills Congress had failed to pass. If Congress would not impose "fiscal responsibility" on the nation, the President would. "It keeps me awake at night, looking at all that red ink," he said. The Executive Order was signed on February 17.

What the President seems to have missed is that all of our money except coins now comes into the world as "red ink," or debt. It is all created on the books of private banks and lent into the economy. If there is no debt, there is no money; and private debt has collapsed. This year to date, U.S. lending has been contracting at the fastest rate in recorded history. A credit freeze has struck globally; and when credit shrinks, the money supply shrinks with it. That means there is insufficient money to buy goods, so workers get laid off and factories get shut down, perpetuating a vicious spiral of economic collapse and depression. To reverse that cycle, credit needs to be restored; and when the banks can't do it, the government needs to step in and start "monetizing" debt itself, or turning debt into dollars.

Although lending remains far below earlier levels, banks say they are making as many loans as they are allowed to make under existing banking rules. The real bottleneck is with the "shadow lenders" – those investors who, until late 2007, bought massive amounts of bank loans bundled up as "securities," taking those loans off the banks' books, making room for yet more loans to be originated out of the banks' capital and deposit bases. Because of the surging defaults on subprime mortgages, investors have now shied away from buying the loans, forcing banks and Wall Street firms to hold them on their books and take the losses. In the boom years, the shadow lending market was estimated at $10 trillion. That market has now collapsed, leaving a massive crater in the money supply. That hole needs to be filled, and only the government is in a position to do it. Paying down the federal debt when money is already scarce just makes matters worse. When the deficit has been reduced historically, the money supply has been reduced along with it, throwing the economy into recession.

Another Look at the Budget Reform Agenda

That raises the question, are the advocates of "fiscal responsibility" merely misguided? Or are they up to something more devious? The President's Executive Order is vague about the sorts of budget decisions being entertained, but we can get a sense of what is on the table by looking at the earlier agenda of Peterson's Commission on Budget Reform. The Peterson/Walker plan would have slashed social security entitlements, at a time when Wall Street has destroyed the home equity and private retirement accounts of potential retirees. Worse, it would have increased the social security tax, disguised as a "mandatory savings tax." This added tax would be automatically withdrawn from your paycheck and deposited to a "Guaranteed Retirement Account" managed by the Social Security Administration. Since the savings would be "mandatory," you could not withdraw your money without stiff penalties; and rather than enjoying an earlier retirement paid out of your increased savings, a later retirement date was being called for. In the meantime, your "mandatory savings" would just be fattening the investment pool of the Wall Street bankers managing the funds.

And that may be what really underlies the big push to educate the public to the dangers of the federal debt. Political analyst Jim Capo discusses a slide show presentation given by David M. Walker after the "I.O.U.S.A." premier, in which a mandatory savings plan was proposed that would be modeled on the Federal Thrift Savings Plan (FSP). Capo comments:

> "The FSP, available for federal employees like congressional staff workers, has over $200 billion of assets (on paper anyway). About half these assets are in special non-negotiable US Treasury notes issued especially for the FSP scheme. The other half are invested in stocks, bonds and other securities. . . . The nearly $100 billion in [this] half of the plan is managed by Blackrock Financial. And, yes, shock, Blackrock Financial is a creation of Mr. Peterson's Blackstone Group. In fact, the FSP and Blackstone were birthed almost as a matched set. It's tough to fail when you form an investment management company at the same time you can gain the contract that directs a percentage of the Federal government payroll into your hands."

What "Fiscal Responsibility" Really Means

All of this puts "fiscal responsibility" in a different light. Rather than saving the future for our grandchildren, as the President himself seems to think it means, it appears to be a code word for delivering public monies into private hands and raising taxes on the alreadysqueezed middle class. In the parlance of the International Monetary Fund (IMF), these are called "austerity measures," and they are the sorts of things that people are taking to the streets in Greece, Iceland and Latvia to protest. Americans are not taking to the streets only because nobody has told us that is what is being planned.

We have been deluded into thinking that "fiscal responsibility" (read "austerity") is something for our benefit, something we actually need in order to save the country from bankruptcy. In the massive campaign to educate us to the perils of the federal debt, we have been repeatedly warned that the debt is disastrously large; that when foreign lenders decide to pull the plug on it, the U.S. will have to declare bankruptcy; and that all this is the fault of the citizenry for borrowing and spending too much. We are admonished to tighten our belts and save more; and since we can't seem to impose that discipline on ourselves, the government will have to do it for us with a "mandatory savings" plan. The American people, who are already suffering massive unemployment and cutbacks in government services, will have to sacrifice more and pay the piper more, just as in those debt-strapped countries forced into austerity measures by the IMF.

Fortunately for us, however, there is a major difference between our debt and the debts of Greece, Latvia and Iceland. Our debt is owed in our own currency – U.S. dollars. Our government has the power to fix its solvency problems itself, by simply issuing the money it needs to pay off or refinance its debt. That time-tested solution goes back to the colonial scrip of the American colonists and the "Greenbacks" issued by Abraham Lincoln to avoid paying 24-36% interest rates.

Economic Fearmongering

What invariably kills any discussion of this sensible solution is another myth long perpetrated by the financial elite — that allowing the government to increase the money supply would lead to hyperinflation. Rather than exercising its sovereign right to create the liquidity the nation needs, the government is told that it must borrow. Borrow from whom? From the bankers, of course. And where do bankers get the money they lend? They create it on their books, just as the government would have done. The difference is that when bankers create it, it comes with a hefty fee attached in the form of interest.

Meanwhile, the Federal Reserve has been trying to increase the money supply; and rather than producing hyperinflation, we continue to suffer from deflation. Frantically pushing money at the banks has not gotten money into the real economy. Rather than lending it to businesses and individuals, the larger banks have been speculating with it or buying up smaller banks, land, farms, and productive capacity, while the credit freeze continues on Main Street. Only the government can reverse this vicious syndrome, by spending money directly on projects that will create jobs, provide services, and stimulate productivity. Increasing the money supply is not inflationary if the money is used to increase goods and services. Inflation results when "demand" (money) exceeds "supply" (goods and services). When supply and demand increase together, prices remain stable.

The notion that the federal debt is too large to be repaid and that we are imposing that monster burden on our grandchildren is another red herring. The federal debt has not been paid off since the days of Andrew Jackson, and it does not need to be paid off. It is just rolled over from year to year, providing the "full faith and credit" that alone backs the money supply of the nation. The only real danger posed by a growing federal debt is an exponentially growing interest burden; but so far, that danger has not materialized either.

Interest on the federal debt has actually gone down since 2006 — from $406 billion to $383 billion — because interest rates have been lowered by the Fed to very low levels.

They can't be lowered much further, however, so the interest burden will increase if the federal debt continues to grow. But there is a solution to that too. The government can just mandate that the Federal Reserve buy the government's debt, and that the Fed not sell the bonds to private lenders. The Federal Reserve states on its website that it rebates its profits to the government after deducting its costs, making the money nearly interest-free.

All the fear-mongering about the economy collapsing when the Chinese and other investors stop buying our debt is yet another red herring. The Fed can buy the debt itself – as it has been stealthily doing. That is actually a better alternative than selling the debt to foreigners, since it means we really will owe the debt only to ourselves, as Roosevelt was assured by his advisors when he agreed to the deficit approach in the 1930s; and this debt-turned-into-dollars will be nearly interest-free.

Better yet would be to either nationalize or abolish the Fed and fund the government directly with Greenbacks as President Lincoln did. What the Fed does the Treasury Department can do, for the cost of administration. There would be no shareholders or bondholders to siphon earnings, which could be recycled into public accounts to fund national, state and local budgets at zero or near-zero interest rates. Eliminating debt service payments would allow state and federal income taxes to be slashed; and the public managers of this money, rather than hiding behind a veil of secrecy, would be opening their books for all to see.

A final red herring is the threatened bankruptcy of Social Security. Social Security cannot actually go bankrupt, because it is a pay-as-you-go system. Today's social security taxes pay today's recipients; and if necessary, the tax can be raised. As Washington economist Dean Baker wrote when President Bush unleashed the campaign to privatize Social Security in 2005:

> "The most recent projections show that the program, with no changes whatsoever, can pay all benefits through the year 2042. Even after 2042, Social Security would always be able to pay a higher benefit (adjusted for inflation) than what current retirees receive, although the payment would only be about 73 percent of scheduled benefits."

Today incomes over $97,000 escape the tax, disproportionately imposing it on lower income brackets. Projections over the next 75 years show that just removing that cap could eliminate the forecasted deficit. When the Democratic presidential candidates were debating in the fall of 2007, Barack Obama and Joe Biden were the only candidates willing to seriously consider this reasonable alternative. President Obama just needs to follow through with the solutions he espoused when campaigning.

The Mass Education Campaign We Really Need

What is really going on behind the scenes may have been revealed by Prof. Carroll Quigley, Bill Clinton's mentor at Georgetown University. An insider groomed by the international bankers, Dr. Quigley wrote in Tragedy and Hope in 1966:

> "[T]he powers of financial capitalism had another far-reaching aim, nothing less than to create a world system of financial control in private hands able to dominate the political system of each country and the economy of the world as a whole. This system was to be controlled in a feudalist fashion by the central banks of the world acting in concert, by secret agreements arrived at in frequent private meetings and conferences."

If that is indeed the plan, it is virtually complete. Unless we wake up to what is going on and take action, the "powers of financial capitalism" will have their way. Rather than taking to the streets, we need to take to the courts, bring voter initiatives, and wake up our legislators to the urgent need to take the power to create money back from the private banking elite that has hijacked it from the American people. And that includes waking up the President, who has been losing sleep over the wrong threat.

***Ellen Brown** developed her research skills as an attorney practicing civil litigation in Los Angeles. In Web of Debt, her latest book, she turns those skills to an analysis of the Federal Reserve and "the money trust." Her eleven books include Forbidden Medicine, Nature's Pharmacy (co-authored with Dr. Lynne Walker), and The Key to Ultimate Health (co-authored with Dr. Richard Hansen). Her websites are webofdebt.com, ellenbrown.com, and public-banking.com.*

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