Monetary Reform and How a National Monetary System Should Work

By Richard C. Cook
Global Research, May 11, 2007
11 May 2007

Region: USA
Theme: Global Economy

The author has received an overwhelming response to his recent Global Research report entitled, "An Emergency Program of Monetary Reform for the United States." The introduction to that report stated that, "the U.S. financial system headed by the Federal Reserve System has failed, and…only an emergency program of monetary reform can address conditions which may be leading to a catastrophe like the Great Depression or worse."

This new report on "Monetary Reform and How a National Monetary System Should Work" continues the dialogue by outlining the principles and mechanisms available to help guide the creation of a monetary system for any nation that wishes to enjoy economic democracy with prosperity. This would be in contrast to the collapsing debt-based monetary system overseen by the Federal Reserve and the other central banks of the world, coordinated at the top by such institutions as the International Monetary Fund, the European Central Bank, and the Bank of International Settlements.

Note that all the banks of the Western world are ultimately private institutions owned by the world's super-rich. The international banking structure is operated by and on behalf of the world's monetary elite primarily for their own profit.

Just below the banking system are the giant corporations of the global economy which derive capital from and funnel profits into the financiers' empire. Bringing up the rear are the populations and debt-serfs of the no-longer-sovereign nation states, including those of the United States, whose participation in the system as consumers is essential, but whose jobs continue to disappear as manufacturing is increasingly automated.

The author had realized as early as 1970 that the central problem with the world's economy lay on the side of distribution, not production. He came to Washington, D.C., that year and spent most of the next thirty-six years working within sight of the Washington Monument, learning how things really work, and pondering the methods that might be more in concord with such founding documents of American democracy as the Declaration of Independence and the U.S. Constitution. Twenty-one of these years were with the U.S. Treasury Department.

Now, for the first time, this report builds on the findings of many of the world's monetary reformers past and present by offering a complete prescription for a new and better world. This prescription is radically different from most progressive reform agendas that address only symptoms of the underlying systemic failures.

WHERE MONEY COMES FROM

When setting out to study monetary principles, we must realize how little we know of the real facts of monetary history. Economics is an extremely limited discipline rife with untested assumptions and unchallengeable dogmas. Its most pernicious doctrine is the assertion that there is something called “the market,” where there is an “invisible hand” that makes everything work out the way it is supposed to.

Actually, an economy functions according to the principles according to which it is designed and regulated. If it is designed to funnel wealth into the hands of the monetary controllers, then that is what the “market” and the “invisible hand” will do. If it is designed to foster “the general welfare,” as it should according to the preamble to the U.S. Constitution, then the “market” and the “invisible hand” will tend in that direction.

Unfortunately, we march today to the tune of the monetary elite, so they are the ones who reap the profits and the benefits. They are the ones on whom the “invisible hand” lavishes the wealth of the world.

It is done through the process of bank-created credit. While during the nineteenth century other forms of money circulated, such as large quantities of coinage, silver certificates, and government-issued greenbacks, almost all the money that exists today originates through a loan by a financial institution to an individual or a business.

When a loan is made it is issued as a liability on the bank’s ledger. When it is repaid, the liability is canceled. With today’s computer systems, all transactions are digitized, of course. The bank keeps the interest on the loan as its combined administrative fee and profit. The money that is lent had no prior existence.

Once money is created as credit, it takes many forms according to how the loan recipient spends it. Some credit is used by businesses or individuals as investment in order to generate profits over and above the amount they must repay to the bank with interest. If the money is used simply for consumer purchases, the individual consumer must pay back the loan through future earnings. In those cases where the borrower defaults on the loan or goes bankrupt, the money simply remains in circulation however it was spent.

Unfortunately, large amounts of credit are used mainly for speculation, not for any benefit to the producing economy. This includes securities bought on margin and borrowing by hedge funds where the fund may make a profit even if the value of its investments goes down. Bank-created credit in this case is little more than chips in a casino.

Other borrowing takes place by equity funds and other types of investors for leveraged mergers or buyouts of entire companies, where the predators wreck a company’s infrastructure by reducing costs and selling its assets, then pay back their bank loans before unloading the business on someone else.

The most important thing to realize about the banking system is that the money which enters into circulation as purchasing power must eventually be returned in the repayment of loans. This is why the Federal Reserve’s monetary measures—M1, M2, and M3—are meaningless, because so much of it has liens against it.

We are taught that paying it back is the way things should be—obviously, if we borrow something, we should pay back what we owe.

But the peculiar thing is that because the borrowed money pays for labor, commodities, rent, etc., it becomes part of the prices that are eventually charged for goods and services. However, when the money goes back to the bank to cancel a loan, that purchasing power disappears. Neither the banks nor economists ever make note of the fact that this process creates a chronic shortage of purchasing power which must be filled by more loans and more bank profits. The economy is thus a treadmill that borrowers must constantly trudge along in order to have enough money for survival.

So a system which is seemingly grounded in the simple adage that if you borrow you should repay is all wrong. The reason it is all wrong is that in most cases, individual consumers should never have to borrow in the first place. And we never ask ourselves why, with the abundance that is possible from modern science and technology, should people have to borrow money at interest for the necessities of life—a house, a car, household expenses, an education, etc.

Thus we realize that the financial system works against what should be the real purpose of money, which is to serve as a ticket for the purchase by people of articles they need to survive or otherwise desire to utilize once the demand for survival has been met.

People have needs and desires. The economy is fully capable of producing all the goods and services needed to fulfill those needs and desires. But the system is broken, because, despite the abundance of credit available for financial speculation, there is not sufficient money available at the consumer level to mediate between prices and consumption, even when most people have a job. We still must borrow, and that is wrong. There should be a better way for society to generate the money for what people need.

So what is really going on here?

One of the things that is going on is that money is being mis-defined as a commodity. People who believe money is a commodity think it has value in-and-of-itself. But one of the hardest things to grasp about money is that not even gold or silver money, or paper money supposedly backed by gold or silver, has or could have intrinsic value.

Actually, money is anything that a willing buyer and a willing seller agree to exchange for something else. Money could be and has been such things as gold, silver, paper, wampum, cows, stones, shells, sticks with notches, or, today, electronic blips. What may appear to give gold or silver value is its scarcity and durability. But unless there are goods and services available and for sale, gold and silver are totally useless. You can’t eat gold or silver, live in them, or wear them. In and of themselves they have no value. What gives any money value is the producing economy and nothing else.

So by this definition, bank-created credit, while it may generate money which a willing buyer and seller agree to exchange, is money with strings attached, in that at some point, it must travel back to the bank in cancellation of a debt. Thus a buyer who offers it to a seller is, in reality, deceiving himself about his actual ability to pay. He is not a free man. Always lurking in the back of his mind is that with every article he has purchased he has shackled himself ever more firmly to future indentured servitude.

The seller, on the other hand, may breathe a little more freely having just acquired some of the monetary medium necessary to repay his own debts. And so it goes, ad infinitum. Even if the money were backed by gold and silver, the system would work in exactly the same way.

So by what right do the bankers bind the economy in such a straightjacket of debt? Again, the underlying logic is that money is a commodity. A group of men have money. It is their money, we believe, rightfully earned. Therefore, because these individuals have money, they have a further right to lend it to others.

But under existing laws, the banking system then makes the leap of assuming that because they have money which can be lent, they have a right to lend much more than they actually possess. Somehow they have become fit practitioners of the fractional reserve banking system whereby, as described above, they can lend simply by creating debits in their computers, based on some ratio between their capital stock and their lending ceiling.

But if bankers can do this, why can't you or I? If I have $1,000, why can't I then lend $10,000 and collect the corresponding interest? The answer is that a bank has a government charter and supposedly can guarantee through various safeguards that the people to whom it lends can repay. But even this isn't required of a bank any more if it can package its loans and sell them to some other business entity, such as an investment company.

But the fact is that banks can only be created by people who are already rich, can put up some initial capital, build a functioning business, and obtain the government charter mentioned above. Once they do this, they are the masters of the world.

Also note that under today's highly unstable financial conditions, it is not only banks which create credit through lending. Since the deregulation of the 1980s, Wall Street brokerage firms greatly expanded the system whereby speculative loans are floated for purchase of securities. This has resulted in a current ratio of debt to equity of 22:1 in the U.S. securities markets, where debt far outweighs value.

WHAT IS CREDIT?

The word "credit" is one of the most widely-used and important in the English language. Dictionary.com lists twenty-one definitions. All these definitions have some connotation of the concept of "value" and the exchange of that value across the dimensions of time and space between one person and another. Obviously, the ideas of "credit" and "money" are closely related.

The idea of credit when viewed from a macroeconomic perspective refers to the ability of an economy to produce goods and services of value to the members of that community. It refers to the potential value of that economy to support life. What it does not and cannot refer to is money in and of itself, because money, as we have seen, has no intrinsic value. Without the credit-potential of a producing economy, money has no meaning.

On the other hand, money can be a convenient yardstick to measure credit, as when we state that the 2006 GDP of the United States was $12.98 trillion. But actually, the "real" credit of the U.S. economy was much higher, because our economy is not running at anywhere near its full capacity. The automobile industry, for instance, is running at about fifty percent of its physical potential. So the real credit of the U.S. is actually higher than the GDP.

"Credit" in an economic sense confers a legal right to draw on the goods and services that make up the potential GDP of the nation. It is the way the society agrees to hand out the monetary tickets by which the GDP may be acquired.

Obviously, the issuance of either too many or too few tickets will cause problems. The issuance of too few tickets will result in underproduction, poverty, even death. The issuance of too many tickets will result in inflation. When the Federal Reserve creates, then deflates, asset bubbles, like the currently collapsing housing bubble, these effects alternate, resulting in the kind of ongoing economic chaos we have seen for decades.

It can readily be seen that credit is a cultural phenomenon. It is the sum total of the entire productive capacity of the nation. It has grown from the past, exists in the present, and can be projected into the future. It is the result of the work of untold millions of people, dead and gone, alive today, and yet unborn. Many of its results may be proprietary, in terms of businesses, property, and patents owned, etc., but every person who has ever lived, lives today, or who will live in the future is a participant in that culture.

Therefore, credit can and should be viewed as a communal endowment, a public phenomenon, a part of what is called "the commons," even with the normal and natural fact of the existence of private property. So the use of credit and its distribution should be treated as a public utility, like water or electricity. Everyone should have a right to its use, according to some rational, lawful, and humane criteria of need or contribution to creating it.

As with the use of other utilities, it is the responsibility of the community to see that credit is used wisely and for positive and constructive purposes. But no one should be denied it altogether, because it is a necessity of life.

Money, as a measure of credit, should therefore be available to the entire community. The government, as the representative of the community, has the responsibility of overseeing, coordinating, and regulating its availability, keeping in mind the fairest and most socially beneficial ways for it to be utilized. Monetary reformers would argue that extensive availability of credit to the working population should be part of the "general welfare" guaranteed by the preamble to the U.S. Constitution. This should not be confused with the virtually unlimited availability of credit to speculators and stock predators as is presently the case with our Wall Street-based economy.

But these principles are poorly recognized. Money, and therefore credit, is viewed as private property, even though most of it, as stated previously, is made by banks "out of thin air." It is no exaggeration to say that the existing system is one whereby the financial elite has confiscated and privatized the most important public resource of all, more important than water, land, electric power, etc. This has resulted in much of the world's wars, poverty, and crime.

Let us again examine the ways money enters into the economic system, this time looking at the total credit picture of the U.S. economy. We said that the 2006 GDP was $12.98 trillion. This takes into account a trade deficit of $726 billion. The question is, where did the credit come from to purchase the GDP, because, by definition, it all had to be paid for in prices.

According to official data, the available national income in 2006 was $10.23 trillion, including wages, salaries, interest, dividends, personal business earnings, and capital gains. Of this amount, approximately one-third was taken through taxes by government at the federal, state, and local levels.

Churning through the economy was borrowing of all kinds—for consumption, commerce, investment, speculation, new government debt, and to finance business transactions. In fact it was the net increase in debt—$3.77 trillion—that paid for the difference between GDP and national income.

Debt also financed much of the trade deficit by our borrowing to purchase what was imported from abroad. The need to borrow has been greatly increased by the decline of the U.S. manufacturing sector, where well-paying jobs that contributed to the national income have disappeared or been outsourced overseas. The ratio of debt to national income has reached historic proportions—460 percent of the national income today vs.186 percent in 1957.

Orthodox economics, including the manipulation of interest rates by the Federal Reserve, has no tools for resolving this crisis. The main reason is that neither economists nor politicians understand it, though bankers certainly do.

Orthodox economics is helpless because people do not understand how the gap between production and purchasing power relates to the way the microeconomics of the corporation translates into the macroeconomics of nations. We observed earlier in this report that prices of articles within the economy include the loans that are taken out during the production process. But these loans are canceled as bank liabilities when they are repaid. Therefore the purchasing power of the economy always lags behind prices.

But this is not the only area where prices include factors that are not paid out in wages, salaries, dividends, or other sources of individual or business income. Other factors include retained earnings, insurance, certain maintenance and overhead costs, plus the cumulative effect of corporations buying from each other with payments which never exit the production system.

As a result, only somewhere between a third and a half of all costs are ever distributed to consumers. This analysis has been documented at length by the Social Credit movement and has been well-known to monetary reformers for decades.

This gap is what drives nations to seek overseas markets for their products as the U.S. did so strenuously during the post-World War II period. When the U.S. balance of payments later fell into negative territory, we tried to compensate by the policy of "dollar hegemony," whereby we foisted our currency on the rest of the world as the principal means of oil trading, maintenance of currency reserves, and paying for our trade deficit.

But as the U.S. internal and external debt grows and our fiscal and trade deficits deepen, a total systemic breakdown is starting to take place. The main recent prop of the U.S. economy, the housing bubble, is deflating. And frantically, we are trying to escape by a radical devaluation of the dollar combined with an aggressive military policy based essentially on confiscating the resources of other nations such as Iraq.

This, combined with action to prop up our fiscal deficit by importing dollars spent abroad on manufactured products we no longer make ourselves, has created a house of cards that must soon come down. All that is lacking is a major shock, such as a widening war in the Middle East or inability by foreign creditors to continue to accept devalued dollars.

Neither devaluation nor aggression will solve the problem which derives from the failure of debt financing to create real purchasing power and thereby resolve the chaos through which a system built for the profits of the financiers can never produce enough unencumbered credit to maintain our desired level of production and the standard of living that goes with it.

THE PRESCRIPTION

As with anyone facing bankruptcy, it is time for those who wish to understand the current U.S. economic crisis to take a deep breath, step back, and gather themselves in order to correctly assess the situation.

Obviously the solution is not to risk blowing up the world by continuing to resolve our domestic economic problems through overseas conquests. This is what the Western nations have been trying to do for centuries, and it appears that the rest of the world may finally have had enough. This is especially the case today when the main factor that is floating the U.S. economy is the huge U.S. trade imbalance where foreign nations must use the dollars they take in to their ultimate disadvantage by financing a federal budget deficit that is measured in dollars whose value is dropping.

Nor does the solution lie on the production side of the equation. The U.S. and other developed economies are capable of producing everything their populations need, even accompanied by a reasonable amount of foreign trade, especially if we can return our industry to the level of productivity we enjoyed prior to the Federal Reserve-induced recession of 1979-83 which gave us today’s anemic “service economy.”

Rather the solution lies with the federal government taking back its constitutionally-authorized control of the credit of the nation from the financiers and managing it as previously stated—as a public utility. There is no need to eliminate capitalism, change the basis of property ownership, abolish corporations, etc., because the organization and administration of the production process is essentially irrelevant to the real problem.

Once again, the producing economy is not the problem. It has performed with tremendous effectiveness in creating the goods and services people need and want. It would be the basis for real economic democracy if its bounty could be made available and distributed in accordance with democratic principles.

It is essential to realize that the central government of a sovereign nation has the right, the ability, and the responsibility to introduce ALL new credit into existence. This is totally different from having the central bank “print money” by relaxing lending policies, resulting in an infusion of cheap loans which must still be repaid.

Sovereign creation of credit is not based on debt. It is and should be based on direct spending of money into circulation by the government itself. Obviously the government should do this in a way that promotes the best interests of the members of society while respecting the varying degrees of contribution by those of different levels of skill and achievement. It is quite possible to enact such a program with due regard to all established conventions of private property and the private ownership and control of existing wealth.

To those who are concerned that the concept of publicly-controlled credit postulates a monetary supply that can be turned on and off like tap water, this is a misconception. There is indeed a cornucopia of supply on the earth, but it is not of money. If is of what human beings are capable of producing with the skill of their hands and their heads and the knowledge of science and technology.

Money is only a ticket to transfer this abundance from producer to consumer, but it must be plentiful enough to allow the transfer of all that is reasonably desired, it should not be misused for financial speculation, and it is the job of government to bring that money to the place of the economic activity where it is needed. The key point is that such money should not be encumbered by debt to a financial institution, including the banks of the Federal Reserve System.

This should be done according the following principles:

1. The decisions of what goods and services should be produced should represent a reasonable mix of what is needed and desired by consumers with what is required for the public good by way of regulation and infrastructure. Decisions should be made by a combination of market forces, business governance, and oversight by representative government. In other words, production should be conducted as we imagine it is done at present, though in reality neither the market, business, nor representative government can function properly and responsibly today because they are under so much pressure from a disastrously dysfunctional monetary system.
2. Purchasing power should be provided to all individuals whether they work or not. This is increasingly important as fewer workers are needed due to automation to produce an increasing amount of goods. There is no way to avoid dislocation of workers due to change in an advanced economy, but it is essentially that people be protected from such change even if they decide to opt out of working for a living at all. There are many productive things people can do without having to draw an income from a paying job. The money provided to people regardless of whether they work would constitute the National Dividend envisioned by a Social Credit system. One way to manage such a system would be to require everyone to work until the age of 40, when optional retirement would be offered.
3. The idea of one nation being the world's policeman with military bases everywhere and a right to conquer other nations at will and take their resources must be abandoned once and for all. A system where the nations of the world are financially independent and self-sustaining as described in this report would lead to the possibility of international stability and trade among nations and regions of the world acting as equals. The history of the last century proves that the drive to war is largely fueled by the need for financial dominance as an offset to the failure to generate sufficient internal purchasing power through democratic management of credit. This syndrome would be eliminated by the monetary reforms described herein.

These are the principles—a functioning economy that combines responsible free enterprise with government regulation and infrastructure; democratic distribution of a National Dividend which supplements earned income; and an international system of economic relationships among sovereign nations acting as equals. None of these principles is currently being met, and no one in a leadership position has a plan to take us there, either now or when the crisis strikes.

The first measure in bringing about change, taking the U.S. as an example, would be for the federal government to create a Monetary Control Board as envisioned by model legislation proposed by the American Monetary Institute. This board would oversee the entire process of assuring that the money supply is sufficient to express the real credit demands of the nation in paying for the GDP. This would be followed by a combination of the following steps:

1. We should spend sufficient credit into existence to supply the basic operating expenses of government at all levels without recourse to either taxes or borrowing. In the past, this has been done by the colonial American legislatures, the Continental Congress at the time of the Revolutionary War, and the federal government during the Civil War. Probably two-thirds of existing federal government expenditures could be eliminated, because much of it is to compensate for a failed monetary system, including much of the military machine. Further, at least ninety percent of all taxes could be eliminated under such a program. The only taxes that would be retained would be those in the form of user fees for infrastructure operations and maintenance or those levied as a control mechanism to prevent inflation. Capital expenses for infrastructure construction at the federal, state, and local levels could be financed through a self-capitalized national infrastructure bank. Government expenditures would continue to require legislative approval under our republican form of government which would be enhanced, not threatened, by monetary reform.
2. The remainder of the total societal gap between production and purchasing power would be filled by a non-taxable National Dividend of two types. One would be a cash stipend paid to all citizens which would also serve the purpose of eliminating poverty by providing everyone with a basic income guarantee. The remainder of the National Dividend would consist of an overall pricing subsidy, whereby a designated proportion of all purchases, including home building expenses, would be rebated to consumers. The total National Dividend per person would probably exceed $12,000 per year under today's economic conditions. It would be a calculated value charged against a government ledger but would be off-budget, with no need to finance it with taxation or borrowing.
3. A portion of the National Dividend would be made available to all citizens reaching the age of eighteen, who would receive a non-taxable lump-sum of $60,000 for higher education, trade school, or business investment.
4. Bank financing would be much more limited than at present. Private sector corporate investment would be funded entirely out of retained earnings and capital markets without recourse to bank lending. Bank lending for stock speculation would be abolished as would leveraged buyouts.
5. Bank lending would be accomplished without fractional reserve methods by requiring banks to supplement their capital and deposits with credit borrowed at very low rates from the federal government as publicly-created credit. While the banks would be allowed to add administrative costs and a reasonable business profit for lending used to finance commerce, mortgages, and small business start-up, government guarantees and subsidies should result in net interest rates to borrowers no greater than one percent.
6. International trade would be accommodated through a regulated system of exchange rates based on real purchasing values of respective national currencies.

RESULTS

This program would not create a Utopia or install a Big Brother to watch over us. It would not relieve mankind of the need to work, study, save, take care of our environment, make wise decisions, use opportunities intelligently, participate in representative government, care for those less fortunate, provide for our posterity, practice self-restraint, obey moral strictures, worship our creator, or love our neighbor as ourselves.

What this program would do would be to allow the nation's monetary system to reach the same level of maturity, functionality, and access presently found, at least potentially, in the physical economy which utilizes science and technology so effectively in producing abundant goods and services.

This means that the program would free mankind from the control of the monetary elite which has unjustly usurped the fruits of the labor of everyone else. The amount of money involved in this control over time is immense. In his report on "An Emergency Program of Monetary Reform of the United States," the author calculated that the National Dividend for 2006 should have resulted in an average stipend paid to each U.S. citizen of $12,600. For a person aged 60, this would work out to $756,000 over a lifetime in current dollars.

This figure of $756,000 represents the amount of money an individual has had to borrow from financial institutions to make up what he should have received as his share of a National Dividend if Congress had not ceded the public prerogatives of credit-creation that exist in the Constitution to private financiers. Extrapolated for the entire U.S. population, the amount of unnecessary borrowing probably has exceeded $100 trillion since World War II. We can gain confidence that this figure is in the ball-park by realizing that total societal debt in the U.S. today has been reliably estimated at over $48 trillion.

Thus it is easy to see that in time, the program of monetary reform described in this report could eliminate poverty and the main causes of war, reduce the size of government, and give individuals a chance to prosper. It would replace the current system of debt-serfdom caused by monetary strangulation at the consumer level with true economic democracy.

Economic democracy may be defined as free access to the bounty of God's earth, according to one's need, character, ability, and work. The purpose of this access is for individuals to have the liberty to work out responsibly their own occupation, lifestyle, identity, and destiny without these being dictated by external authorities or the threat of economic ruin. These are the freedoms that are inherent in the ideals that created America and, though compromised so much, have been America's gift to the rest of the world.

The reader might ask why, if these reforms could so readily be made, weren't they thought of and implemented before? The answer is that these reforms have been known and promoted by many people in the past, both known and unknown, including such leaders in America as Benjamin Franklin, Thomas Jefferson, Andrew Jackson, Thomas Edison, Henry Ford, Herbert Hoover, Franklin D. Roosevelt, John F. Kennedy, and many others. But working against such enlightened leaders has been an international financier conspiracy with immense political power.

The modern era of financier control in the U.S. started with the Federal Reserve Act of 1913. But during the 1920s, the U.S. was still outstripping the rest of the world with rapid economic growth. This was due to a favorable financial position with respect to Europe after World War I, the wide availability of credit in the domestic economy, rapid industrial progress, and the predilection of American industrialists to pay their workers generous wages.

Note that President Herbert Hoover is on this list of enlightened leaders. It is not generally known that Hoover, elected in 1928, had become familiar with the Social Credit system which originated in Great Britain with Major C. H. Douglas, who published the seminal work "Economic Democracy" in 1918. Douglas, with intimate knowledge of the events of the time, later related in his book "Warning Democracy" that in order to counter Hoover's enlightened economic ideas, the financiers decided to wreck the U.S. economy, starting with the stock market crash of 1929.

There is an official version of history, then there is the way things really happened. Thus Hoover is popularly, but mistakenly, portrayed as a failed president. But Hoover, an engineer and one of the most capable presidents in U.S. history, identified the Federal Reserve, acting on its own, as having brought on the Great Depression. He responded by creating the Reconstruction Finance Corporation to revitalize the economy with a fresh infusion of credit, but, having been blamed for the crash, was voted out of office in favor of F.D.R. in 1932.

The RFC remained and was instrumental in rebuilding the economy over the next two decades. Roosevelt himself understood that the federal government had to maintain a decisive degree of control over credit, though he was undermined by people in his own administration favorable to the financiers. So he never completed a program of real monetary reform.

During the 1930s, Douglas was forecasting another world war due to monetary causes, but he was told during his visits to the U.S. that the financiers would never allow Social Credit to be implemented. According to monetary reform folklore, the financial elite looked around for an economist to combat Douglas's ideas and settled on John Maynard Keynes. The Keynesian system tried to deal with the monetary problem through massive government deficits, high taxes, and rapid economic growth.

This system worked through the World War II years and beyond but ran out of steam after the 1963 assassination of JFK and the loss by the U.S. of its trade advantages and fiscal solvency during and after the Vietnam War. The financiers reasserted control throughout the 1970s, leading to the devastating Federal Reserve-induced recession of 1979-83 and the deregulation of the financial industry during the Reagan years of 1981-9.

That left matters where they stand today. Since the 1980s, every U.S. economic expansion has been nothing more than a Federal Reserve-created asset inflation. The latest has been the now collapsing housing bubble, the largest bubble in history. The financiers are trying to bring about an orderly decline—the so-called "soft landing"—though at the likely cost of the wealth, health, jobs, homes, and perhaps even some of the lives of tens of millions of demoralized people.

Will we let them get away with it? Obviously, the government has bail-outs on its mind, though now, with housing gone, there may be nothing left for the financiers to inflate for the next round of chaos. Still, they are trying. Analysts are now calling attention to a new merger and acquisition bubble and a huge securities lending boom that has driven the stock market to historic levels even as consumer purchasing power in the U.S. crumbles.

If this bubbles bursts, much of the middle class wealth that remained after the 1987 stock market crash, the 2000-2002 bursting of the dot.com bubble, and the ongoing decline of the housing market will be gone for good.

Maybe the party is finally over. Maybe at the end of their 300-year reign, starting roughly with the creation of the Bank of England in 1694, the financiers have finally succeeded in doing enough damage to the world economy that the rest of us are willing to take action. Or maybe there will be a sufficient distraction by more war in the Middle East and elsewhere. Maybe peak oil or global warming will intervene with destruction on too large a scale to ignore. Or maybe we'll just limp along into the sunset.

Only time will tell. But however the change may happen, it remains the author's conviction that, one way or the other, a fair and intelligent monetary system will someday exist on the planet earth.

Richard C. Cook is the author of Challenger Revealed: An Insider's Account of How the Reagan Administration Caused the Greatest Tragedy of the Space Age. A retired federal analyst, his career included stints with the U.S. Civil Service Commission, the Food and Drug Administration, the Carter White House, and NASA, followed by twenty-one years with the U.S. Treasury Department. He is now a Washington, D.C.-based writer and consultant and will be speaking at the AMI annual conference in Chicago in September 2007. His website is at www.richardccook.com.
