GlobalResearch
Center for Research on Globalization

The 2008 Presidential Election: Concepts Progressives Must Know About Monetary Policy and History

By Richard C. Cook
Global Research, December 14, 2007
14 December 2007

Region: USA
Theme: Global Economy
In-depth Report: U.S. Elections

The 2008 presidential election campaign starts in earnest on January 3 with the Iowa caucuses, followed a few days later by the New Hampshire primary. While all of the Republican candidates except Ron Paul have totally ignored economic issues, the Democrats are all sounding more "populist" than at any time since the Great Depression. Nevertheless, with the exception of Dennis Kucinich, they all swallow in its totality the debt-based monetary system overseen by the Federal Reserve which is at the root of the escalating crisis.

Progressives who are trying to figure out whom to support are handicapped by the fact that they know little of monetary policy and history. Usually they are in favor of some form of wealth distribution, so solutions rarely go beyond tax increases. The Democratic candidates are responding to this perception by pledging in some form or another to roll back the Bush tax cuts for the wealthy that began in 2001 and ensured that the Clinton balanced budget of 1998-2000 would once again dissolve in an ocean of red ink as had happened in the 1980s under Republican President Ronald Reagan.

But tax increases are not an answer to a disastrously flawed system. Without gaining control of the U.S. monetary system, any Democratic president, no matter how reform-minded, will be outsmarted and outflanked by the Money Power every time.

In order to help progressives who seek a benchmark to assess the economic and monetary proposals that are likely to be forthcoming during the run-up to the November 2008 election, the following list of concepts is presented. The list is an adaptation of a paper the author has utilized for briefings he has given on Capitol Hill in Washington, D.C.

- Money should be viewed by progressives as a) a medium of exchange, b) created by law, c) to serve the needs of the individual and the nation's physical economy. Under the progressive definition, money is the servant of man.

- Money is viewed by conservatives as a) a commodity, b) having intrinsic value, c) equivalent to "wealth," d) properly usable for anything the owner desires, including usury and speculation. Under the conservative definition, man is the servant of money.

- While conservatives view money as "wealth," progressives should view "wealth" as the present value and future potential of the physical economy as it operates under the Constitution and laws of the United States.

- In American history, the progressive definition of money has prevailed when the government has controlled or strongly influenced the creation of money. The conservative definition has prevailed when private bankers have controlled or strongly influenced the creation of money, particularly during the century since the Federal Reserve was created in 1913.

- The principle underlying cause of the American Revolution was refusal by the British Parliament to allow the colonies to issue their own paper money.

- The right of the federal government to issue money is contained in the Constitution but is not clearly defined. It was more clearly defined under the Articles of Confederation. This indicates that financiers were influential in the drafting of the Constitution.

- Today it is taken for granted that the only two ways the government can acquire and spend money are taxation and borrowing. Minting and issuing coinage is often overlooked, because it is such a small part of today's economy. But there have been times in American history when the government has spent money directly into circulation. The best example was the Greenbacks of the Civil War era.

- Direct spending of money into circulation by the government is derided by financiers and conservatives as inflationary. Actually, it is no more inflationary than bank-issued credit and may actually be less so.

- Throughout history, it has been the Democrats who have held a more progressive view of money. It has been the Federalists/Whigs/Republicans who have held the conservative view of money and have been largely pro-bank.

- All banks in the United States have operated under a governmental charter, either federal or state. U.S. law does not recognize an inherent right for anyone to operate a bank.

- All banking in the United States has been fractional reserve banking, where a bank is allowed to lend more money than it holds in deposit. This is a relic of medieval times and grants the banks a privilege which is undeserved. Essentially the banks are the owners of the money supply.

- Until around 1873, banks were required to hold their reserves in specie; i.e., gold or silver, until silver was demonetized by Congress, contracting the currency. Until then, Congress had maintained by legislation the legal ratio between gold and silver. From 1873-1933, gold was the only metallic reserve allowed. The U.S. went off the gold standard in 1933 though the dollar was pegged to the price of gold until 1972.

- Thousands of banks in U.S. history failed due to runs, panics, overextended loans, etc., despite the metallic standard. This included large numbers during the early years of the Great Depression. A gold standard cannot prevent bank failures or guarantee the value of the currency.

- Fear of bank failures under fractional reserve banking was a major reason banks were opposed by President Andrew Jackson and other early Democrats.

- There were no banks in colonial America. The first one was the Bank of Philadelphia chartered during the Revolutionary War by the Continental Congress, followed soon after by the Bank of North America. After the war, state banks began to be chartered along with the federally-chartered First Bank of the United States. Some state-chartered banks were also state-owned.

- The First and Second Banks of the United States were the hottest political issue during the early years of the U.S.

- From the time of the First Bank of the United States until today, U.S. bankers have been strongly allied with the financiers of Great Britain and continental Europe. They are the real controllers of what has been called the Anglo-American Empire.

- After the Civil War and until 1900, the money supply was again the hottest political issue in the U.S., with the progressives being splintered among several political movements. The banks supported the Republicans. The Democrats were not able to unite until 1900 but by then had discarded Greenback-type solutions in favor of returning to the already-outdated bimetallic standard. Democratic candidate William Jennings Bryan gave his famous “cross of gold” speech at the Democratic National Convention but lost the 1900 presidential election to William McKinley.

- Many progressives strongly opposed the creation of the Federal Reserve System in 1913, which centralized banking power under the Wall Street Money Trust which was allied with British and European bankers. The main argument in favor of the Federal Reserve was to prevent bank failures by being able to support them through rapid movement of reserves to cover shortages. It was supposedly a bank insurance plan but had as an underlying purpose the creation of a massive public debt to finance wars.

- One of the strongest opponents of the Federal Reserve Act was Congressman Charles A. Lindbergh, Sr., of South Dakota, the father of Charles Lindbergh, Jr., the aviator. Some of the politicians who supported the Federal Reserve Act later regretted it, including President Woodrow Wilson and his secretary of state, William Jennings Bryan.

- Numerous Democratic congressmen opposed the Federal Reserve System during the twentieth century, including several chairmen of the House Banking and Currency Committee: Louis McFadden, Wright Patman, and Henry Gonzales. McFadden drew up articles of impeachment against the leaders of the Federal

Reserve and the Treasury Department. Patman and Gonzales introduced legislation to abolish the Federal Reserve.

- In 1933, Congress authorized President Franklin Roosevelt to reissue Greenbacks, though he did not do so.

- Neither banks nor government are needed to have money. During the Great Depression, over 300 communities began to print their own money until the federal government outlawed the practice. Throughout American history there have been many systems of private or local use of manufactured currency, or scrip. Today's use of stock certificates as money is a kind of scrip.

- The original purpose of banks in the U.S. was to facilitate commerce, with a modest profit for its shareholders. This was reflected in the "real bills doctrine," whereby lending supports only identifiable commercial transactions.

- The main justification for laissez-faire economics is the unsupported assertion found in Adam Smith's *Wealth of Nations* that a hidden hand—"Hand, the Invisible"—will benefit the common welfare if individuals within the economic system pursue their own individual interests. This fallacy is the basis of so-called "classical" or "liberal" economics and is also a part of the ideology of the conservative branch of the Republican Party and the theology of its fundamentalist constituency. It is reflected in the view of the "Austrian School" of economics and was the basis for the monetarist policies of the 1970s and the "Reagan Revolution" of the 1980s. It has been disproved countless times by progressive economists. The main problem is that money in a complex economy is so easily manipulated by insiders.

- Opposing laissez-faire economics was what was called in the nineteenth century the "American System." This was based on Renaissance ideas of nationalism, reflected in Europe by the German and Italian cameralists, who said that the central government had the right and obligation to regulate economic and financial affairs for the benefit of the nation. The most cogent expression of these views was Emmerich Vattel's *The Law of Nations*, used as a manual of government at the First Continental Congress in 1775. The New Deal, which created the modern American physical economy until it was wrecked by the Federal Reserve-induced recession of 1979-83 and the "Reagan Revolution," was a modern expression of the American System.

- The American System was based on actions by government to direct investment into infrastructure development, including health and education. This included government purchase of shares in development corporations and direct funding of projects through tax revenues and government borrowing.

- During the early to mid-19th century, the American System was funded at the state level of government and saw the building of canals and railroads, improvement of waterways and harbors, turnpikes, etc. The federal government first became involved with infrastructure through the Army Corps of Engineers, then, during the Civil War, with the building of the transcontinental railroad and funding of land-grant colleges. The American System was copied in Germany, Japan, China, and Russia and elsewhere around the world. It was viewed as completely contrary to the British imperialist model.

- The American System as manifested through the New Deal saw the TVA, WPA, CCC, Hoover Dam, funding of school and hospital construction, public water and sewer systems, municipal gas and electric systems, rural electrification, etc. More recent examples were the interstate highway system, R&D investment, the manned space program, and creation of the internet. Today there are no more such projects serving as economic drivers for the U.S.

- Infrastructure constitutes approximately fifty percent of the entire physical economy of a modern nation. The other fifty percent is the industrial/consumer economy which is most efficiently operated by the private sector.

- Bank financing is suited neither to investment in the private sector nor to the building of public infrastructure. This is because both are relatively long-term, low-yield investments. Bank financing, originally intended to facilitate commerce, has expanded to finance 1) consumption, due to a lack of societal purchasing power, and 2) asset speculation through a host of methods including mortgages, purchase of securities on margin, derivatives, and leveraged mergers and buyouts.

- Free market economics when taken to an extreme, where the direction of monetary capital is almost exclusively allocated by the banks, inevitably leads to under-funding of both private sector investment and public infrastructure.

- Major ongoing federal expenditures on the military-industrial complex also lead to under-funding of public civilian infrastructure and are largely a form of corporate welfare that benefits the rich.

- World War II resulted in a huge level of savings by the working population that was financed by federal deficits. The deficits were paid down after the war when the savings were released into the peacetime economy, leading to economic growth and increased tax revenues. This experience disproves the contention of bankers that an influx of money held by individual consumers is necessarily inflationary.

- Industrial expansion can take place without bank financing through retention and reinvestment of profits and rapid, large-scale technological innovation. However, this removes purchasing power from the economy that the existing system makes up for through lending to consumers by banks. It is a self-defeating system.

- The federal government can encourage and enhance industrial expansion through judicious use of tax and fiscal policy, including deficit spending, but supply-side tax cuts for the upper brackets have resulted in more spending on imported consumer products and asset bubbles rather than domestic industrial growth. In the long run, both deficit spending and taxation should be minimized.

- Compound interest is great for the lender but terrible for the borrower. Over an extended period of time, interest at current rates can double the price of assets. This is ruinous for consumers who today are trapped in a cycle where they cannot live without extensive borrowing.

- The federal government deliberately causes inflation to reduce the cost of the national debt and generate more tax revenues. COLAs compounded annually produce a major devaluation of the dollar over a period of several years.

- The American Society of Civil Engineers estimated in 1998 that we have a current infrastructure maintenance deficit of $1.8 trillion. The deficit has grown considerably since then.

- Direct government funding, as through Greenbacks, is uniquely suited for infrastructure investment without the need to use tax- or debt-based funding. It is the least expensive method of public finance.

- A federal infrastructure bank could lend on a basis of manufactured Greenback-type credit. Capitalization is not required except for purchase of state and local low-interest bonds.

- Failure to adequately fund infrastructure leads to deterioration of the private industrial sector, as it depends on infrastructure for its efficiency and ability to operate and innovate. This is one reason U.S. industry has declined and we now buy so many manufactured products from abroad.

- The Federal Reserve System is skewed away from infrastructure investment toward private sector speculation. It sets up a monetary system suitable for a military empire, not an industrial democracy. Because the Federal Reserve System has wrecked American manufacturing, the only way we can maintain our standard of living is to be the financier for the rest of the world. But this means lending money at high rates of interest which is essentially unjust. So to protect our profits we must continually engage in military conquest. This is a leading cause of “dollar hegemony” and the long record of U.S. aggression since the Vietnam War.

- There have been several important movements during the nineteenth and twentieth centuries in support of monetary reform based on direct government issuance of money and the control of credit as a public utility.

- A program of direct government funding would prove favorable to the banks in the long-run, since it would leave them to do what they do best; i.e., provide liquidity for private sector commercial purposes. But it is difficult for the banks to see these advantages due to their prejudices. As things now stand, the banks are parasites, and the host is dying. They do not understand that a dead host equals dead parasites.

- Direct government funding reflects the progressive definition of money in contrast to the conservative definition of money.

- Direct government funding of infrastructure can provide a large number of jobs to people, stimulate domestic industry, and introduce debt-free money into circulation. This would result in a major revitalization of the U.S. economy.

- The U.S. could easily use direct government expenditures to provide everyone a basic income guarantee and a National Dividend, as suggested by British author C.H. Douglas and the Social Credit movement that has existed for decades in British Commonwealth nations. This would stimulate the economy, reduce debt, and eliminate poverty and homelessness. Such a system would give the nation that adopted it the strongest economy on earth. (For more information on Social Credit and the National Dividend, see the new Wikipedia article on Economic Democracy).

- The Constitution of the United States creates a commonwealth of citizens which has a right to control its own money supply like any other public utility.

- The main policy objective of the Federal Reserve is price stability. This protects the investments and income of the banks. The chief weapon of producing price stability is wage and salary constraints. This is done by maintaining a pool of unemployed or underemployed workers.

- The term “price stability” when used by conservatives is code for “class warfare.” Prices are actually much too high because they do not credit the economy with appreciation of the overall physical plant due to technological innovation. This could be remedied by a comprehensive system of price subsidies as part of a National Dividend policy.

- The policies and programs of the Federal Reserve are structurally, operationally, and ideologically in favor of the wealthiest classes and opposed to workers, farmers, and small businesspeople.

- It is the Federal Reserve, more than any other institution, which is responsible for the tremendous concentration of wealth among the richest people.

- Despite the lip service paid by the Federal Reserve to price stability, inflation has increased steadily since 1965. Price stability has mainly referred to stagnant wages.

- High inflation coincides with periods of war or war mobilization and the deliberate creation of financial bubbles. This is reflected in the current price inflation of petroleum products.

- The U.S. physical infrastructure has declined not only with the infrastructure investment deficit, but also with the export of manufacturing jobs under NAFTA, WTO, etc.

- The banking system, through the Federal Reserve, has an almost unlimited ability to increase cash in circulation by producing more debt. However, at a certain point, the debt burden will become unsustainable and the system will crash. This is what the business cycle consists of. It is what is leading to the coming worldwide recession.

- Escalation of loaning against assets increases the price of those assets, so contributes to inflation. Ballooning of credit and inflation go hand-in-hand, as with housing prices which are now crashing as the downside of the recent bubble.

- Low interest rates that cause a ballooning of credit and inflation may look good in the short run but are exceedingly destructive to the economy. The problem would be reduced if banking adhered to the "real bills" doctrine which bases lending on actual economic transactions, not speculation. The problem would be eliminated with a new monetary system based on direct government spending for infrastructure and a monetary system that included a National Dividend.

- Ninety percent of the members of Congress know nothing about monetary policy. With a handful of exceptions, the ten percent who do work on behalf of the banks.

Richard C. Cook is a retired U.S. federal government analyst, whose career included service 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. His articles on economics, politics, and space policy have appeared on numerous websites, and he is cited in the Wikipedia article on "Economic Democracy" as one of the world's leading monetary reformers. He is the author of Challenger Revealed: An Insider's Account of How the Reagan Administration Caused the Greatest Tragedy of the Space Age, called by one reviewer, "the most important spaceflight book of the last twenty years." His website is at www.richardccook.com.

ANNEX

As a last word, herein follows the text of a letter to the editor by Mr. Wallace M. Klinck of Alberta, Canada, on the application of Douglas's Social Credit system to the current tax and utility rate crisis in that province. The letter illustrates the potential for Social Credit in dealing with major economic problems. Mr. Klinck is one of the world's leading spokesmen for Social Credit ideas:

Tax increase in county defies natural law

by Wallace M. Klinck

The outrageous increase in property taxes and utility rates proposed by Strathcona County for 2008 is largely justified because of the escalation of price inflation. I submit that inflation is a violation of natural law and that public officials accept it as a natural phenomenon to which society must passively adjust is a major error leading to increasingly calamitous consequences.

Moreover, the goal of a balanced budget under the existing system of banking and cost accountancy is a fundamental error which makes a growing tax burden unavoidable. Technically, it implies that the economy is static, that we consume all of our physical capital currently and that the issuer of credit, i.e., the banking system, owns all capital. Further, blaming price inflation on monetary demand overlooks the faulty financial accountancy underlying the fundamental problem which is excess financial cost accumulation which results in a non- self-liquidating price system. Consumer prices include allocated capital charges, additions to price which are necessary from an accountancy standpoint but which do not distribute equivalent incomes within the same cycle of production. That is, money is collected from consumers prematurely, and cancelled in repayment of bank debt incurred previously by loans issued to producers, as if to represent that our real capital is being consumed currently, whereas it is actually consumed or depreciated over a considerable period of time. The resultant disparity, i.e., “gap”, growing increasingly as capital replaces labour as a factor of production, between final consumer prices and distributed effective consumer income, is currently ‘bridged’ by ever expanding issues of credit issued, or created, via repayable bank loans. This is the faulty approach bequeathed to us by the late economist John Maynard Keynes.

Of course, it means that financial costs in respect of one cycle of production are not fully liquidated within that cycle but merely passed on, or ‘carried over,’ as an inflationary charge to be recovered from future cycles of production. That is, one cannot liquidate, formally and finally, financial charges of today by issues of bank credit (i.e. debt) which become a further charge carried forward against future cycles of production.

Such issues of credit may allow a large measure of consumer access to final consumer goods, at the expense of exponentially burgeoning debt with decreasing financial liquidity and progressive price inflation, but they do not cancel the financial costs of production as currently accounted–even though the real, i.e., physical, costs of production have been fully met when consumer goods take their finalized form and are ready for purchase.

The essential problem is that the consumer is charged in prices, quite properly, with capital depreciation, but, quite wrongly, not credited with capital appreciation, which latter historically greatly exceeds the former. Realistically, we should have over the passage of time a falling price-level with a growing source of income received independently of any incomes earned through paid work by participation in commerce or industry.

The core mechanisms proposed by the late Cliffford Hugh Douglas to rectify this revealed progressive error in national accountancy were the National Dividend and the Compensated Price (compensation of consumer prices at point of retail sale) financed by non- cost-creating consumer ‘credits’ issued, without being recorded as repayable debt, from outside the price-system to increase financial independence for the individual citizen and to effect a continuously falling price-level as the true physical cost of production falls over time.

The true cost of production is the mean ratio, measured in monetary units, of national consumption divided by that of production–always becoming increasingly less than a numerical value of one, as real efficiency increases with the use of new technology. Inflation of prices thus will be seen to be a fundamental misrepresentation of physical reality.

Money is essentially an information system. Inflation of prices is an indication of inefficiency or economic failure and is an abstract financial denial of the magnificent real advances which modern civilization has made in the realm of actual physical production efficiency.

These new "Social Credit" consumption credits advocated by Douglas would as always already have previous debt claims against them in retail prices and will be cancelled, just as money issued via consumer bank loans at present is cancelled, when businesses receive them via retail sales and use them to repay their issuing banks in settlement of their earlier commercial loans contracted in the usual manner for the facilitation of business operations.

Money recovered by industry via price and replaced to capital reserve has an effect similar to its use for repayment of existing bank loans inasmuch as it is no longer available as consumer income and can only again become so by reissue for a new cycle of production which creates a whole new and additionalset of financial costs.

Social Credit challenges the historic orthodox acceptance of Say's Law which states axiomatically that for every financial cost of production incurred an equivalent amount of financial purchasing power is issued and no overall deficiency of income can exist.

While it may be true that "at one time or another" in the past an equivalent amount of financial payments may have been issued, this is of little help or consolation to consumers driven into increasing reliance on debt because an increasing proportion of such income has been prematurely cancelled as effective income and is no longer available for purchase of goods which are currently emanating from the production system.

How long is the suffering general public going to tolerate the burden of escalating debt, price inflation and increasing taxation without demanding a reversal through implementation of a realistic financial policy?

Published by:

T he Sherwood Park – Strathcona County News

Sherwood Park, Alberta

Canada
