

The Challenger Disaster, Financial Collapse, and Viable Solutions

Interview of Richard C. Cook

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Global Research, October 24, 2008
24 October 2008

Region: [USA](#)

Theme: [Global Economy](#)

GC: Just a little background: I was reading your articles on the Web, with much interest, getting a lot of information; then, I was pleased to find your favorable comments on something I'd written. I wrote you that, should you find yourself in the D.C. area, give a holler—and, you're the only guy I ever wrote that to who actually hollered!

RC: (Laughs.)

GC: So ... here we are ... I want to get into your ideas—your views on the economy ... But first, can you tell us a little about yourself? I've read some of your first book, CHALLENGER REVEALED, and I think it's fair to say that you established your reputation as a whistleblower back in 1987 in front of the Presidential Commission on the space shuttle disaster. You worked for NASA, you were prescient back then, your warnings were ignored or dismissed. I hope that some of us are a little smarter, and that there are more of us who can better heed your warnings now about our free-falling economy. First, Who is Richard Cook?

RC: When people ask, I say I'm a Native American: I was born in Montana, grew up in Michigan and Virginia. My ancestors have been part of American history; one of them was in the Oklahoma land rush; a great, great, great grandfather was in a Civil War unit that served with Grant; my grandfather and father served in the navy in the World Wars.

When my parents moved to Virginia, my mother worked as a tour guide in colonial Williamsburg, and I learned about American history through her. ... I graduated from William and Mary, where I majored in English and studied the history of the Western world, as well as Eastern religions. I became a student of cultures then.

Upon graduation, in 1970, I got a job working for the U.S. civil service commission. It was the height of the Vietnam War—a war I strongly opposed! I worked for the government for a couple of years, then taught history at a private school for two years. I returned to the same civil service agency—I felt a call back to government service. I worked for two more years in planning and evaluation. Then I was offered a job in the Food and Drug Administration.

GC: You're basically trained as an analyst; you look at figures, examine budgets, you—

RC: I was trained as a writer in college. I wrote a novel for my honors project. When I came to work in D.C., I was a policy analyst. They'd give me a topic—What do we do about lower-

grade employees, how to assist their advance up the ladder? I'd talk to the experts, gather information, present my findings. After working at FDA for two years, in 1979, I was given a job in the Carter White House, where I worked on the staff of the special assistant for consumer affairs. When the Reagan administration came in, I got a close-up view of the presidential campaign. Being in the White House office, we saw what was going on; for example, the Reagan campaign stole Jimmy Carter's briefing book to prep Reagan for the debates. When Reagan won, I was moved out of the old executive office building. I didn't have much to do for a couple of years; consumer affairs was not a high priority with Reagan.

My wife and I decided to leave Washington; we bought a farm in West Virginia; worked the farm for two years. After a while, I returned to Washington, worked for several months for a defense contractor. I wasn't making much money and my wife was pregnant! I applied for civil service jobs and was surprised when I got the call from NASA. I had no hard science background. But they hired me as a resource analyst in the comptroller's office. My first assignment was to go to the office of Space Flight, talk to the engineers about this problem they were having with the solid rocket booster O-rings. These engineers opened up to me and began telling me how dangerous the problem was with the O-rings. They spoke almost in whispers. One of them said "We hold our breath every time this thing goes up."

GC: What would happen if these O-rings failed?

RC: The space shuttle would blow up. ... These were not things I had to dig out of these guys. They wanted to tell me. ... I think they were trying to get a message up to headquarters around their own management because there was a sense in the office of Space Flight that bad news should not get out; they wanted to "manage" these problems without publicity.

GC: Pre-emptive cover-up!

RC: Right! Although I did find, after the disaster, that the top people did know about these problems. Not from thick, analytical reports that were documented and went up the line; they knew because somebody told them at a meeting—or in a hallway.

GC: But, the problems weren't documented ... so, they could cover their own asses!

RC: Right. By that time I knew very well how analysis should be done. These problems with the O-rings, etc., should have been the subject of major studies. But the space shuttle program was highly politicized; it was heavily dependent on reimbursement from customers—including foreign governments flying their satellites on the shuttle; and, including the scientific community putting their space probes on the shuttle. ... But the most important customer was the Department of Defense. At the DoD, it was the same: the top people might have been told in hallway conversations that certain things were going on—but nothing was documented. ... Congress knew nothing about any of this. The press knew nothing. The White House, the OMB knew nothing—I mean, not just the O-ring problems, but other problems such as space shuttle main engines, spare parts shortages, accidents that were occurring at the Kennedy Space center because of the accelerating flight schedule. So, people who funded the program—Congress-, people who oversaw the program—the Executive office, the President—and the Press were very much in the dark. There were a series of problems that could have stopped the program ... and I think, they assumed in the Office of Space Flight that something was going to stop it, something was

going to fail—

GC: -To blow up?

RC: Right ... that sooner or later we're going to have a disaster and it'll stop—because we can't keep going at this pace; sooner or later we'll have to stop and fix the problems, but we can't tell our customers we're not able to fly for them and meet our commitments!

GC: You write about the accelerating flight schedule in your book.

RC: 15 flights a year in 1986. The target was to get it up to two flights per month!

GC: And this was to make the program pay for itself?

RC: By then, no one believed it could pay for itself. But that didn't mean that the reimbursements that NASA was getting wasn't ... nice. They were getting a billion dollars a year from the DoD. That's a lot of payroll to meet. They needed the money, but they also needed to maintain their monopoly on the space launches. The purpose of the shuttle was to fly everything. This was to be the launch system for the Free World. All foreign satellites, all space probes, all defense missions were to fly on the shuttle—spy satellites, etc. The pressure was on to fly everything the National Security world needed, everything our scientists needed, everything our foreign allies needed. Nobody was willing to say, We've got to stop!

GC: Isn't this endemic to systems? Whether we're talking Communist, socialist, capitalist, corporatist—there's something within the system that builds this pressure to succeed, to justify itself—and that's where, ideally, people like you come in. ... You're the watchman on the tower and you're supposed to be saying, "Hey, wait a minute, something's not right here!" But then, it's also characteristic of systems that people like you are shunted aside.

RC: We're the canaries in the mine! I was told when I got to NASA, when I spoke to the Space Flight people, that I was supposed to be an adversary. Adversarial on the budget side. ... But, you're right—the analyst is the one who's supposed to prick the balloon. But, the system at NASA was a juggernaut. ... I was there at the time that Peter Drucker's ideas on management mission statements had come into vogue. Management set the objectives and everyone was supposed to fall into line. If there were problems, the engineers were supposed to fix them—but without a major re-design.

GC: Because that would slow things down, cost a lot of money?

RC: Right ... one of the features of the space shuttle program was that they never tested the way the aerospace engineering community was used to testing—on a component by component basis. Once you've tested your components, you put those together in a unit, then you test the unit, then you build up to a live test. They didn't do that. They built everything together at once and tested it, then went back and said, If it's too bad, we might do something, but if it's little things, we won't. The shuttle never had a test flight. They built it, put the crew in it and hoped everything work. But on the second flight, they began to see the O-rings fail.

GC: So this is where you come in ... You write powerfully in your book about the day of the Challenger disaster; you go rifling through your files; you search your old files; something is ringing in your ears; you've seen this in your mind's eye; and you find your files and it turns

out you've written about the potential for this disaster and it was ignored or dismissed.

RC: That's how it happened! My first report was about the potential for failure of the O-rings. And I gave that to my supervisor who asked me to "keep tracking the issue." I would meet fairly regularly with the engineers, tracking their findings and concerns. What I didn't know was that in August of 1985, they had called in the engineers from the Thiokol corporation, along with the program office from the Marshall Space Flight Center, and they had this big meeting in Washington where they decided how to try to fix the O-rings joints (They never told me about this before or after!) Ironically, they figured out how to fix the problem then, but they weren't able to implement these changes before the Challenger launch!

GC: One thing I'd like to get into—because it startled me when I read it. ... To understand what this O-ring is, it's where the segments of the rocket come together, and it allows for the decoupling in space, and that would allow for the re-use of the whole system ... and you described how this is put together with putty! That amazed me.

RC: The putty is in there as a heat shield ... (Gestures with his hands as he explains the technical aspects of the segmented rocket.)

GC: So, this is the kind of putty I put around my bathtub?

RC: (Laughs.) You can buy O-rings in a hardware store. Yes, heat-resistant putty.

GC: You said the scientists didn't completely understand the physics—why there had been no charring of the O-rings on the second test-flight. But yet there was this pressure to go on.

RC: That's right ... Around this time, I was given another assignment to look at the Centaur upper stage of the rocket. I was supposed to write a history of the Centaur program. And, as I delved into it, I began to think—Jeez, this is even worse than the O-rings! I became convinced that the Centaur was the immediate threat to the shuttle ... (A brief explanation of where the Centaur is located on the shuttle; jet propulsion, etc.) The Centaur was the upper-stage rocket and it was the heaviest, most dangerous upper-stage ever built because it ran on liquid oxygen and hydrogen.

GC: Isn't that what the Hindenberg was all about?

RC: Yeah, that's a good analogy. The astronauts would launch while carrying a Hindenberg in the payload bay.

GC: Wow! ... Obviously, there's a lot more of this in your book. ... But, for now, I'd like to return to the question of your credibility, which is essential to appreciate your views on the economy. ... I see you as somebody who's somewhat prophetic: you saw the danger, you tried to sound the warning, and, like my friend, Laocoon, you were ignored. And so, tell me just a little bit about that process ... Your first report was about the potential failure of the O-rings. You file your report and you're told to keep track of it. You do so, but nothing changes. Then, the disaster occurs, what next? Before too long you go before Congress and—

RC: -before the Presidential Commission and ... What happens is that NASA started a cover-up. They were not going to tell anyone that there was a long history of problems.

Eventually, they'd let the technical people come up with a technical explanation. They were never going to let the whole story come out. And I was there with the documents I had, sitting at my farm in West Virginia, and I said to my wife, I can't go through with this. They expected me to go along. They expected me to be part of the cover-up of one of the greatest disasters in US history. I felt very challenged. I felt indignant. No one ever told me, Rick, we want you to cover this up ... but it was obvious. ... it was taken for granted that you would go along. There were orders that went out from the head of the agency—not to talk to the press and not to speculate about the causes of the accident. I felt some kind of inner drive to disrupt this. That wasn't what I'd signed on for when I came to be a civil servant.

GC: You were putting your career at risk?

RC: Oh, yeah. And, even my life. I was told, "They kill people for less than this."

GC: Who told you that?

RC: A newsman. ...

GC: Okay, the bottom line is, you submitted your reports, you sounded the warning, and there's no real change. The damn thing blows up, kills Christa MacAuliffe and six other astronauts ... and then there's a cover-up. So, what next? You went to the media?

RC: It was thought at first that NASA would investigate itself; but soon afterward, a Presidential Commission was appointed, headed by Donald Regan, Reagan's chief of staff. I later determined that the Presidential Commission was set up to deflect the investigation from the White House ... because the real reason they launched the Challenger that morning was for Reagan's publicity purposes—particularly for his State of the Union speech where he was going to talk about Christa MacAuliffe. That was where the real pressure came. NASA had a flawed system—a cruddy spaceship that could blow up ... but the pressure to launch came from the White House. So, the Presidential Commission was supposed to manage the news and protect the White House. When I saw the cover-up emerging, I took all of my O-ring papers down to the New York Times, met with their science reporter and explained how the whole thing had happened. I gave them my documents, including my memo from the previous July where I was named as the person who had investigated this and had given warnings ... When the story came out, the Commission met behind closed doors and decided they were going to discredit me and the O-ring papers. When I got on the stand, the chairman started grilling me, stating that I was a new employee with no technical knowledge—and what was I doing questioning my betters? I stood my ground, went through the history of what I knew. That was the first the world heard that NASA knew what had happened. ... I never returned to NASA after that. I had a job offer from Treasury and I reported to Treasury the following week. However, I did continue investigating the issue, on my own, over the next two years. Finally, I tracked how the Reagan White House had actually caused this disaster. I talked to someone who was Reagan's astrologer [!]¹—learned how they had recommended to Reagan that he not launch, but he went ahead and did it anyway, in spite of his knowing there was trouble with cold temperature launches. It was Reagan who made the final decision—all that pressure he brought to bear for publicity's sake ... But, by that time, it was out of the news. The media didn't want to hear about it any more, they gave Reagan a free ride. I put my notes away for 15 years. When I could see the approach of my retirement from government, I got my notes out again and wrote the book, which documents the inside story.

GC: This tells us a lot about this society. ... Even when the information is out there, the cover-up continues; the media just ignores it or lets the story die. ... We can segue to where we are now, 21 years after the disaster. We're facing a different kind of disaster, a financial one ... and you've written a lot about it. Now, you didn't have a technical background, and yet you were a whistle-blower for technical problems. You don't have an economics background, but you're a whistle blower on the economy and the way our economic system works. How do you have credibility in economics?

RC: It just happened that I ended up in NASA ... Well, after NASA, it just so happened that I ended up in the Treasury Department—the heart of the beast. I spent 21 years there studying the economic system of the US government—the financial system. I had a lot of time on my hands. I was a pretty good analyst and I could do what they wanted me to do pretty readily. So, I studied in depth. If you look at it going back to colonial days and the history coming out of England—the history of how the governments operated—corporate finance is a big part of Western history. These corporate financial systems really were developed through the Roman Catholic church. Western financial systems came out of the medieval papacy. They were the ones with the money—and they put together a very good system of public finance that has carried down through today.

GC: I've got to ask you—where do the Jews come into this? Because many people think it's all controlled by the Jews.

RC: In medieval days, because the Church prohibited usury, the Jews became the ones who did the dirty work—handling finances for the Pope and the King. Having no religious prohibitions against finance and usury, the Jews became the financial class of Europe. They also became the gold merchants who were the first ones to practice fractional reserve banking. People would place their gold with the gold merchants who would then issue certificates against it, and then they would issue certificates against gold that they didn't really have—the issuance would exceed the actual reserve.

GC: Fractional reserve is the idea that a bank can lend more than it actually has. Ten times or more. Isn't it 30 times these days?

RC: It depends on what the reserve requirement is. Today it's fairly low. ... Anyway, that whole system came out of the Middle Ages ... When William of Orange came over with the Glorious Revolution of 1688, he brought people with him who set up the Bank of England. The Bank of England has been the model for Central Banks to this day! It was created to loan money to the British government to fight its wars. That's the model that we have today ... it's the system of our Federal Reserve when it was put in place in 1913. ...

At Treasury, we worked very closely with the Fed. The Fed is the fiscal agent for the US Treasury. So, I learned about the Fed and how it worked in the trenches at Treasury. By the time I was getting ready to leave Treasury—around 2002/2003, I began to delve into the monetary reform movement that had existed in the US for a very long time, but which I had just begun to study in some detail. At the Carter White House, I had begun to learn about the British Social Credit Movement which came out of Britain in the 1920s and '30s as kind of the first monetary reform movement in the Western world. And all of this fit together in my mind around 2002-3, and I began to post some articles on the Internet under a pen name—though I still worked for Treasury. I also had gotten to know Stephen Zarlenga, the director of the American Monetary Institute, and I advised him on writing his monetary reform legislation—the American Monetary Act that he has in his brief to members of

Congress. I also met Dennis Kucinich when he was running for President in 2004, and I gave some briefings to Dennis on US monetary history.

GC: Does Kucinich favor your monetary system?

RC: In fact, in the article I'm writing now, I note that Dennis just came out with a 16-point economic program—and one of the points focuses on the American Monetary Act on which I worked with Zerlanger.

GC: What's the gist of it?

RC: It's rather complex ... but it starts with nationalizing the Federal Reserve system. Anyway, I never went to grad school in economics, but I learned monetary economics as a practitioner and a student of it in Treasury. I retired in January, 07, and that month I published the Challenger book. Then, I thought, What do I do now? Well, I'd written these Internet articles, I had my briefings for Kucinich, I had another article that I wrote that I posted at Global Research in January, and I thought, well, this is another book!—so I guess I'll write a monetary book now. It turned out that Global Research, headed by Michel Chossudovsky up in Montreal, really liked my work. So, I had an outlet, and I became one of his chief economics writers. By April, I had digested the Social Credit ideas—based on the “dividend concept” that the way you release money into circulation is through a citizen's dividend, not through bank-lending, which is the basic idea of the Alaska Permanent Fund. Well, by April, 2007, I had posted an article at Global Research titled, “An Emergency Program of Monetary Reform” because I felt very strongly that we were heading towards a collapse.

GC: And you foresaw this last year?

RC: Yes. ... I continued to write these theoretical articles for the next two or three months. Then, in June, based on all of that plus signals I was getting from the Washington Post (which I call the newsletter of the financial elite), I posted an article entitled, “It's Official: The Crash of the US Economy Has Begun.” That was 07. And, I can tell you, people who began to follow my writing at that time saved themselves a lot of money! I know people who started to get out of the stock market then.

GC: So ... why didn't you let me know?

RC: (Laughs ...) Anyway, suddenly, I was now being called the whistle-blower on the US economy! I just had this compulsion to lift up the rocks and see what's under them.

GC: And you're looking at the slimy, crawling things. ... You remind me again that autodidacts are among my favorite people ... because they're not “institutionalized,” they're looking at things from the outside, and often are the best truth-tellers. That's what you were doing at NASA—and now you're doing it in the economic field. ... So, you've done the research going back to the Middle Ages and how we've evolved this crazy system. You probably go back to colonial times—Hamilton setting his system up, and back to 1913 and the Federal Reserve. You've no doubt studied the Great Depression. ... So, where are we now? We hear that we're in the greatest economic crisis since the Great Depression; others say this could be worse because it's now global. Where are we in your analysis? And then we'll get to “The Cook Plan.”

RC: I think we're at the beginning of a terrible global depression, a terrible collapse. The problem is not just that the economic indicators point to that. The leading indicator in economics is purchasing power; that is, how much money do members of the economy have to purchase the necessities of life, and where do they get that money? Obviously, one way you get purchasing power is through your job—you earn it; another way is through dividends; another is capital gains; another is to borrow it. An increasing amount of purchasing power, not just for our nation, but for people around the world, has been through borrowing. So, if there's a collapse in lending—it isn't just that you can't get a loan and you need to postpone some purchases; for many people, that means that you can't live. If you've been living off your home equity loans, for example, and that's gone, what's going to replace it? Right now, we're seeing not just a failure of the monied powers—because they're so over-leveraged—we're seeing a collapse of purchasing power among the people of the world. If that purchasing power can't be replaced—the purchasing power that has entered the economy through lending over the past 10, 20, 30 years—where's it going to come from? There's no other source of purchasing power; so people can't pay their mortgages or their utility bills, or buy food. If that happens on a global basis ... and the credit economy isn't filling the gap anymore because they realize that the loans they're putting out aren't going to be repaid—that's the big problem. It's not that the credit isn't available because banks and governments can create as much credit as they want. Just off of ledgers. They can conjure up as much money to lend as they want to. The problem is paying the loans back. If people don't have the money to pay the loans back, where's it going to come from?

GC: And the housing crisis precipitated all of this?

RC: It was the trigger. It was the spark that lit something that was ready to blow up.

GC: Because a lot of these people were dependent on home equity loans, they're using their houses as their credit cards, and then the value of their houses declines, and the banks don't want to extend more credit—is that the way these dominoes have fallen?

RC: Well, yeah, but there are other twists and turns. For example, when the dot.com bubble burst in 2001—that was the Clinton bubble—it was created deliberately; that's why Clinton looked so good because he made it all the way to 2000 on that bubble. His Secretary of the Treasury, Robert Rubin, engineered that bubble by pulling in huge amounts of foreign capital. When that bubble crashed and George W. Bush was sitting there looking at a long-term recession/depression at the beginning of his term and he was in the process of the first tax-cut for the rich in March of 01—he's wondering what to do (the Bush Administration). They've given away money to the rich and they're going to fight some really big wars. So, where's the money coming from? In walks Alan Greenspan. Now, I've documented that once Bush became president, Greenspan's visits to the White House rapidly accelerated. Greenspan began lowering interest rates and that began to free up capital for mortgage lending. People found they could much more easily get money to buy houses. But, also in 2001, I had a long interview that I conducted with a mortgage broker who told me that at that time the word came down through the mortgage industry to start falsifying applications for mortgages; to start lying about the applicants' income. One of my contacts who was borrowing money to buy a house at that time told me that on the mortgage applicant's income—they would write in a number that was considerably above her real income.

GC: Where do you think word was coming down from? Ultimately from Greenspan?

RC: And Bush. The Bush administration and Greenspan. There was collusion between the Bush White House and the Federal Reserve.

GC: Did they know exactly what they were doing?

RC: Exactly.

GC: They had to finance their wars, make up for the tax cuts to the wealthy. ...

RC: It was the economic engine of 2001 to 2006. You know, when Eliot Spitzer—just before he had to resign—he came out with a report that said when he was the attorney general in New York, he and the other attorneys general of the state decided that he had to crack down on mortgage fraud. They were prevented from doing so by a regulation that was put out at that time by the US Treasury Department. There's also a report about Washington Mutual—it was on ABC of all places ... all of their risk analysts who had prevented WM from getting caught up in these bad loans were suddenly told to stop—stop monitoring. The word was passed down: start lending at a much higher rate than before. Now, there's no way these actions can be done without the regulators knowing it ... without the Federal Reserve knowing. At some point, the whole system became a fraud to produce the economic engine for the Bush administration.

GC: And did they not know that there would be a reckoning at some point?

RC: What really triggered the collapse? Well, we say that at some point the sub-prime mortgages simply became untenable. But, what triggered that? It was triggered by two things: One is that part of the lending that was done was through these adjustable rate mortgage escalators where your rate was good for two or three years and then you suddenly find yourself paying \$1,000 more each month. Borrowers were told, don't worry, the value of the house will keep rising and you can sell your house and make some money. So, the fraud was built in not only by falsifying income, but through these adjustable rate mortgages (ARMS) that were time-bombs in the system. Allan Greenspan was behind that; he told people these ARMS were fine. Then, knowing that the ARMS were going to explode, the Fed under Greenspan began to raise interest rates in 2006. He started the bubble and then he blew it up.

GC: To protect the assets of the wealthy?

RC: We don't quite know yet.

GC: And what about inflation and purchasing power? Doesn't that kick into this also?

RC: Inflation came through the house values.

GC: And the wealthy hate inflation, right? Because it spoils the value of their assets.

RC: The inflation was in housing assets, and the wealthy were the lenders; so they didn't care. Because once the plug is pulled and these houses are in foreclosure—and we're over 4 million now since 2006—it's the wealthy who come in and buy these houses at the crash prices.

GC: Those who have liquid assets.

RC: Yes ... or the banks. The banks now own millions of houses.

GC: You talk about a “gap” ... and you don’t mean the clothing store. ... What is the gap between prices and purchasing power?

RC: This is the whole theory of Keynesian economics. (I learned a lot more about it on my own than I would have learned in college.) Basically, the problem in modern economics is poverty in the midst of plenty. You would think, with modern industrial methods, you could produce enough for everybody. For decades and longer, people would talk about the “leisure dividend”—everything could be mechanized to produce wealth, people won’t have to work so hard, they’ll have more time off ... and it just never happened. Poverty in the midst of plenty has plagued our world ever since the Industrial Revolution really got rolling. Keynes set out to explain the problem. I’ll try to make it simple. ... Everything that you produce has a price attached to it. You’re going to charge whatever you need to cover your costs and make a little profit. Profits are not high. In most industries, profits run somewhere between 5 and 10 percent. Part of that is paid in dividends and part is saved. The part that is saved is called “retained earnings.” Retained earnings are a necessity. Because of entropy—or the Law of Diminishing Returns. The idea is that, when you produce something, you’re producing at an efficiency rate that can’t be maintained indefinitely. Because, everything you buy, you’re buying at the best price you can get ... but, over time, it gets more expensive because the easy stuff to sell comes first; but, over time, you’re going to incur more costs when you sell it. For example, when you hire people to work for you, you’re going to hire the most capable people and they’ll be the most productive. If you hire more people, they’ll probably need more training or are less capable—so you’ve got a Law of Diminishing Returns—your costs are going to rise. So, in order to cover those cost increases, you need to hold back payment (as retained earnings). That means that the money you pay out—that’s the purchasing power of the community; so the prices that the community is going to pay are always going to be higher than the purchasing power. That’s the gap, that’s the gap that I write about.

GC: And the savings—

C: That’s in the bank. And the bank generally lends for asset purchase, not investment. It’s a storage function, it’s not a capital investment function. In fact, in the last 30 years there’s probably been no growth at all in capital investment in the United States. All of the money that’s gone into the banks has gone into asset appreciation—because they make money on capital gains; that’s the chief source of wealth in our modern banking system—capital gains, which means inflation. At any rate, there’s this gap between prices and purchasing power. Keynes said that the whole system can collapse back to purchasing power, but then you’ll develop another gap and the whole system will keep ratcheting down—and that’s called a depression. During the Great Depression, there wasn’t purchasing power in the system to buy what was produced at the price that had to be charged in order to assure the continuation of the process.

GC: Again, there’s something systemic here ... in the entropy. Is there any way around this?

RC: Keynes’ solution was to fill the gap by government debt—by pump-priming. Beginning in the 1930’s, we see Roosevelt running government deficits to fund things like job creation, the civil conservation corps, Works Progress Administration—that type of thing. He also used it to capitalize the Reconstruction Finance Corporation which began to lend at very low rates of interest into the private sector and into state and local governments and into the

hands of farmers. Roosevelt essentially took over the credit creation function of government, he took it from the banks. The New Deal was created by government deficit financing. Additionally, he had very high marginal tax rates. The rich paid through the nose during the New Deal. ... All of this really took off during World War II. The borrowing there shot up to the highest level we've ever had. Even today, we're not that high, though we may get there in the next year or two! Now, another way you can fill the gap is through a positive trade balance. Because if you've got money coming into your system because we're selling more stuff than we import—that becomes income. So, every nation wants to use trade—and that's why you've got trade rivalries—

GC: Beggar your neighbor.

RC: Exactly. And, of course we saw that before World War I when Britain was fighting a trade war with Germany. After World War II, the US had a tremendous surplus in our balance of trade, which we lost in the 60's and 70's. So that was another thing that floated the economy. Still another way to close the gap is through economic growth. Because if you can outgrow your gap or outspend it through the velocity of money you can close it. And, you can close the gap through inflation! If you've got \$100 in debt and you inflate the currency so it's only worth \$80, then it's easier to pay off. So, inflation has been a bedrock of government fiscal policy since the 30's. Why does the government have a cost of living every year for social security and for federal employees? Not to keep up with inflation, but to create inflation. Because its cumulative. Even if inflation is only 3 or 4 percent a year, you're going to create an exponential curve; so, that's one reason why—yeah, we may have just given away \$750 billion to the banks, but we're going to inflate the currency so much, we'll get back \$200 billion by the time we're done ... Another thing inflation does—and we saw this with the alternative minimum tax—it drives people into a higher tax bracket. ... Now, one other thing about the gap—the gap was known when Keynes was writing, and the Social Credit Movement in Britain knew about it fifteen years earlier. Their solution was to fill the gap through dividends. Because the theory is that the gap is going to exist no matter what you do; but you modify it in some way. That's what borrowing does in today's system. You borrow money to modify retained earnings.

GC: Now we're getting deeper into this. ... So, monetizing the gap ... I have to admit I'm getting a little fuzzy here ... I had a conversation with Stephen Shafarman a month or so ago and he explained some of this, but I wondered: Here's a government which will not finance universal health care, does not invest in education, and yet, Shafarman and you are proposing that this government will give us \$1,000 a month for every adult and \$500 a month for every child ... where's the money coming from? I thought money was about having some kind of tangible asset behind it—gold or a house, some kind of collateral. And therefore you could say that more money means more value in the asset. But your proposal is based on something else. You're saying, print the money and give it to everyone. What am I missing?

RC: We're not talking about money, we're talking about credit. Credit is the producing potential of an economy. It's a way of calling forth production. For example, if I give you—and this is why I'm doing it through vouchers, not cash payments because I don't want people to take their cash and buy lottery tickets—it's not productive. But if I give you a voucher, let's say it's for \$10—let's say it's a food stamp. You can take that to the market place, and people will raise food because they'll get \$10 from you. That becomes an incentive for them to produce. What you're doing when you introduce money into circulation this way, you're monetizing future production—in response to that, people will do

something they didn't do before. This is the way a huge part of the US economy functioned during the 19th century. Gold and silver were monetized then at a ratio of 12 to 1, gold to silver. The government didn't buy gold and silver and turn it into coins. The government ran a mint. In that mint, people who owned gold or silver—they brought it into the mint, and the mint would then take your gold and they'd stamp it into coins. And the mint would give it back to you—it was a free service. Now, you had a bag of gold bullion and now you have a hundred dollars in gold coins. You then go and spend that into the economy; and because you have gold now and you're spending it, that incentivizes production; a whole system of production builds up because now there's something of value that can be earned. This was why, for example, the California Gold Rush became such a spur to production in the US. ... This was why the new cyanide process of extracting gold ore around 1900 was such a tremendous economic boon for the world—because it called forth production. It's the same reason why the mining of gold and silver by the Spanish in the Americas in the 1500s brought into existence the modern productive economy. Because they were bringing gold and silver back. The government didn't create that. It was brought back as a monetary commodity, and now suddenly people began to produce and produce and produce. The dividend is exactly the same principle. ...

GC: Something you said turned a light on in my head. This phrase: "monetizing future production". ... These vouchers represent the future, they are a stake in the future! I'm going to give you this voucher and you're going to spend it and this is going to call forth future production. So, how come we're not already doing that?

RC: Because the banks control the system. The banks would rather loan you the money and extract interest from you than give you a voucher. For example, if you go down to U Street here in D.C., and you see the urban blight; if you began to hand out vouchers to the people who live there that place would be transformed—probably in a few months. It would be based on small business, you would have food products coming in, you would have a lot of new things being done. ... This actually happened during the 70s when the community services administration was introducing grants into the inner cities to vitalize the local economy. But, as the 70s progressed, and all of those social programs were killed—that's when the center cities fell back into the poverty that we see today. And when the Federal Reserve raised interest rates in the early 70s to a tremendously high level and killed off our producing economy, they did the same to the inner cities by withdrawing a source of credit that had begun to fuel commerce in those areas and had begun to transform our urban landscape.

GC: So, the banks have been making money on the system as it exists. But, now, the banks are in trouble. They've come to the taxpayers for a bailout ... to perpetuate the whole system.

RC: The banking system is a parasite that is killing the host.

GC: And, this goes back to the Middle Ages. ... You're talking revolution, aren't you?

RC: Yeah.

GC: And you're talking real socialism. And maybe you can get into this a little bit because I think Americans are extremely confused about what socialism is. So, we hear this banter on right wing talk radio about how we're becoming a socialist country because our government is involved in helping the banks, and taking over A.I.G. and so forth. But I say that's more

about National Socialism—which is what Hitler was all about. Or about Corporatism which is what Mussolini called his system—and it's really Fascism, but you never hear the right using that term. What you're talking about, I call it socialism with a small "s." It's real socialism that helps people where they live; helps them with the essentials and leads to survival and a thriving community.

RC: These right wingers should read Article One of the Constitution. Article One says that Congress shall regulate interstate commerce. It also says that Congress shall coin money and establish the value thereof. That Congress has not just the right, but the duty to regulate the economy, to regulate the monetary system. To what end? Well, then you go back to the Preamble of the Constitution—

GC: "To insure domestic tranquility"—

RC: "and promote the general welfare." The people who wrote the Constitution knew that to promote the general welfare, Congress—the elected representatives—had to have the right to regulate interstate commerce and to coin money and establish its value. That's what we've thrown away! For the sake of this right-wing, market nonsense that has totally failed and that has produced a catastrophe.

GC: And it works by creating bubbles, bursting bubbles, creating another bubble. ...

RC: The banks really began to take over the economy in a big way in the 70s. That was the transition decade.

GC: When we went off the gold standard?

RC: That opened the door to unlimited inflation of money through the petro-dollar, and allowed the dollar to become the world reserve currency. But, also, interest rates began to climb, began to burst, in the 70s. By the end of the Volker recession interest rates were over 20 percent, which destroyed the US producing economy—and that was deliberate. From then on, every period of economic growth in this country has been a bubble!

GC: What you're calling the "producing economy," I've heard called the "real economy," as opposed to the financialized economy.

RC: The guy who's really defined this best is Dr. Michael Hudson. The producing economy is where people like you and I go to work every day and make stuff. The financial economy is money that's leant into circulation or that is manipulated for profit without any productive value being created. Hudson calls it the FIRE economy—finance, insurance and real estate. The FIRE economy has killed the producing economy.

GC: As we start our last tape, I want to thank you for this tutorial! There's a lot more we can talk about, but I'm hearing "time's wing'd chariot" at my ear, so as we move towards the fire exits, let me ask you, since you're talking revolution, What are you going to do when they come after you?

RC: (Laughs ...) I really don't think about that. I just do what I feel I'm supposed to do.

GC: It's your moral commitment. ...

RC: Yeah.

GC: You did mention that you studied comparative religions at William and Mary, so this is an important part of who you are. And, along those lines, you've also thought about what kind of future communities we might be living in in the US in twenty years. ... Tell me about your vision of the future.

RC: Well, you can look at it in one of two ways, I think. One is economics that's based upon the trickle down philosophy that we got starting with the Reagan years, which was that the rich will invest and produce, and the wealth that comes through that will somehow pass down into the hands of working people through jobs. And that whole idea of a top-down economy is not new; this was essentially what medieval feudalism was all about when the rich lived in their manors and had moats around their castles. (Of course, we see that today with our gated communities!) And the poor just fended for themselves. I think we're going in that direction now. I think our culture is increasingly aristocratic, increasingly about passing wealth to the rich. And no better means of doing that has ever been invented than bank finance, where, through the magic of compound interest, I don't work anymore but my money works for me; all the wealth of the community is sucked upward through that vortex up to the hands of the people at the top. We've seen this before in history, and we're seeing it now. ... The other way is approaching it from the bottom up. It's giving people who work for a living the ability not only to survive but to flourish. And to do that, there must be a way of providing access to people in the community for wealth creation—for savings, for investment. Why should we do that? Basically, I believe in the concept that all men are created equal, we're all equal in the eyes of God, and that every human being has a right to live on this earth and to take part in the life that is possible to us through the opportunity to manifest our potential. I'm a democrat with a small "d," and I think that those periods of history where that has been possible have been the times when America has truly been a great nation.

GC: When were those times?

RC: One was after 1800, when, through the Louisiana Purchase, the whole West was opened up and people were free to go out and establish a farm or a business. We opened ourselves up to immigration to people from all around the world and I think a tremendous force was unleashed for opportunity, for achievement and for genius that we haven't had since then.

GC: That's a long time back!

RC: I think the New Deal was that. My family were New Dealers. My parents got their education through New Deal programs. I got mine through the National Defense Education Act; programs were available so that students from the working or middle class could become part of our social life, part of our economy. And, those days are ending. Increasingly, the only students who can go to college are those who have money or can mortgage their futures with these tremendous student loans—and even those loans are disappearing with the credit crisis. I believe that the true genius of the human race can be unlocked from the bottom—from ordinary people being given the opportunity to fulfill their God-given destiny. I think that, essentially, for me, this is what the teaching of Jesus was about. The best economics is the one based on the principle of doing unto your neighbor as you would have them do unto you. You don't rob from your neighbor, you give to your neighbor. And I believe our present economic system is robbing from our neighbor. Taking what belongs from them, and essentially enslaving your neighbor into working not for him and his posterity and his family, but for you—because you're the one who is living off the fat of the land through your compound interest, your financial lending system and all that

comes with it.

GC: I agree with you, but let me play devil's advocate. What I hear, more and more, is that we can't afford this; because we have to compete with China, India. How can we possibly compete? They have so many more people; they can work so much cheaper. So, how does your system make sense in this emerging world market?

RC: We don't have to compete with anybody. The reason that China and India appear so competitive is that they're so poor to begin with. They're able to throw millions of laborers into making our Christmas tree ornaments! For them to grow from abject poverty to where a portion of them are approaching middle class status looks like great economic growth. And because they're willing to work so cheaply they can under-price us—if we're dependent upon a competitive market place in order to earn the money that we need to keep our economy afloat because we're so in debt to ourselves or our banking system that we can't produce at that same level of efficiency. Now, a dividend-based economy ... well, take farming for example: right now our family farm is dead; a family farm can't afford to compete in the market place. But, if we were able to monetize our farming economy through dividends where you had the vouchers I've been talking about and you could take them down to the farmers' market, if you could feed money into the system from that source—that would allow people who can't afford to farm today to begin farming again. ... So, the only reason you have these competitive relations between nations is because you have a global economy based upon top-down bank-financing which ultimately is usury and ultimately sucks the cream off the top of the productive system for the benefit and profit of the bankers, the bond-holders, the interest holders—and it impoverishes everyone else. Essentially you've got a bunch of starving people in China competing against a bunch of starving people in India competing against a bunch of people who soon are going to be starving in America to get that slight edge in order to allow a top-down, debt-based monetary system to live off the fat of the land. Once you get rid of that system and introduce currency at the grass-roots level, you create a whole new economic paradigm that will change everything. And, you're right. It's a political revolution ... because the only reason we don't do that today is because of the increasing power in the hands of the financiers and the politicians they own.

GC: So how are we going to overturn this system? What's it going to take? A Russian revolution? 20 million dead?

RC: Actually, the Russian revolution was a bankers' revolution. Lenin and Trotsky were financed by Rothschild and Rockefeller and the big New York banks. Actually, the Romanovs did not have a central bank, the way there was a Federal Reserve or a Bank of England. The Russian economy was being financed by indigenous land banks out in the Russian countryside that would lend based on land mortgages at very little rates of interest. That was creating what was becoming one of the strongest economies in the world. And the Bolsheviks essentially made an agreement with the bankers in the West: if you finance us, we'll put a central bank in Russia that you will own—and that's exactly what happened. And Russia afterwards became dependent on Western banking and commerce. In fact, one of the biggest supporters of the growth of Russian industry under Stalin was the Rockefellers. The Rockefellers were granted leases in the Baku oilfields around the Caspian—

GC: Oh man!

RC: Yeah, it's all very. ... So, the kind of revolution I'm talking about is a monetary revolution

that would place purchasing power directly in the hands of the people for them to spend as they wish at the local level. Then, once you begin to produce in that way, you do create a certain level of savings, and that savings can then capitalize true capital markets where people pool their resources and savings. We don't have true capital markets anymore—that kind of pooling of resources by average people where they can make investments. What we have instead is speculators buying stocks on margin or buying whole companies through equity purchases on margin where 90-95%—or more—of capital used in the system is bank leveraging; it's speculative money that has polluted and poisoned the capital markets.

GC: I understand what you're saying about a peaceful monetary revolution. But ... they're not going to turn it over to you and to me.

RC: The people have to demand it!

GC: They'll shoot us in the streets!

RC: I don't have an answer for this. I can see in the last two years a big change in the number of people who have begun to see things in this way and to identify the banking and financial systems as the root of the problem. I think Ron Paul had a lot to do with it. He's introduced legislation to abolish the Federal Reserve system. And, the Libertarians, as misguided as some of their solutions are—like, for example, the idea of returning to the gold standard, which is just a red herring—at least they have the idea that the people are capable of running their own affairs without government oversight or interference. That's one reason I like the Alaska Permanent Fund so much. During the 70s when they were setting this up, the state government wanted to take these royalties from the oil companies and then distribute them to the people through social programs, etc. And there was an outcry among the people: Just give us the money and we'll decide how to spend it! There was no reason to go through the government bureaucracies and then disburse the money to the people through means testing, etc. The Alaskans had a referendum, and now every year a cash payment is made to every resident there. This last year the payment was \$3,269 per resident. Now, if you're in a household with 4 people, you're making \$13,000 cash, a substantial amount of money that Alaskans have given to them to do whatever they want! There's no reason why we can't do that—or even more—for every resident of the United States. And that's what we should be demanding. People shouldn't be going up to Congress for more social programs. ... When Bush gave out the \$600 rebate during the second quarter of 2008, that's one of the few right things he ever did. That's what prevented the economy from going into recession during the second quarter. Even that piddling amount. We've got substantial movement in this country through the Basic Income Guarantee movement, through Shafarman's movement, we've got the same thing in Europe; we have countries in Latin America which are moving in this direction. There is awareness that can be built on. But at some point the current has to tip in favor of the people over the banks. Who will run the economy of the world—the people who work and hope and sweat and have aspirations, or is it the banks that suck the life out of every economy they've ever been associated with? At a certain point people just have to say they've had enough. One way or another that's happening. A lot of people are defaulting on their credit card debts, for example. My daughter was paying over 28% on her cards. She can't pay it anymore. She doesn't have the money. They're gonna kill the economy; they're gonna kill people who can't continue to work to support the financial controllers. Something has to change. And if they drive the country into a collapse—and they will—then at some point, people who have the ability to say no are going to have to do it. Through whatever means is available.

GC: You think it's imminent, or will they manage to pull themselves out again?

RC: I can't see the system being rescued. Because it's spread globally. The credit system has collapsed because people cannot pay their loans any more. I mean, if we have a winter where the grocery stores can't put food on their shelves, people will be starving in this country. There's already 35 million who are "nutritionally deprived"—the term they use nowadays. Food stamps applications are growing tremendously. Surplus food has declined. Something's gotta give. This could become tragically serious in one to two years. Unless something is done to revitalize the local, producing economies.

GC: I think we're especially vulnerable in the winter months.

RC: We could see real starvation coming in the next one to two years. The current level of population in the US exists because of our industrial economy. If that economy collapses, so will our population.

GC: Which has more than doubled in our lifetime.

RC: Yeah. The people who run our government understand the dangers, but they don't know how to fix it because they've been taken over by this cancer which is the financial system.

GC: Maybe they understand, but they're so vested in it, they're like the people at NASA—they don't want to stop it.

RC: I think that's fair.

GC: Well, on that grim note, I guess we can wrap this up. Now, to go even deeper into this, the good folks ought to read your forthcoming book. The title was?

RC: WE HOLD THESE TRUTHS: THE HOPE OF MONETARY REFORM.

GC: And the press?

RC: Tendril Press.

GC: Thank you very much, Rick. You've given us a lot to ponder—and to act on!

Richard C. Cook is the author of *Challenger Revealed*, and the forthcoming, *We Hold These Truths: The Hope of Monetary Reform*. His work is widely disseminated on the Internet.

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