

Will Economic Stimulus Measures Stave Off Recession?

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It is not quite true that the U.S. economy is heading into a recession, even though President Bush and most other politicians seem to be discovering it for the first time. It's like the famous scene in *Casablanca* where Louis, the Prefect of Police, shuts down Rick's nightclub while pocketing his winnings for the night, because, "I am shocked, shocked to learn that gambling is going on in this establishment!"

Actually, as this writer and others have been saying for months, the producing economy—you know, the one where men and women go to work every day to make things of value (not just push paper for financial "services")—has been in decline for at least a year. This can be measured by the steady decrease of M1, the money available in cash and checking accounts for immediate purchases.

But if you dig a little deeper, it is easy to see that the U.S. never really got out of the recession of 2000-2002 which followed the bursting of the dot.com bubble at the end of the Bill Clinton presidency. This event was marked by the stock market crash starting in December 2000 that cost Americans over a trillion dollars in retirement savings and other forms of paper "wealth" over a period of a few months.

The U.S. producing economy never really came back from that debacle. Instead, the Federal Reserve, under "Maestro" Alan Greenspan, facilitated the blowing of three financial bubbles, upon which the Bush/Cheney ship-of-state has sailed along merrily until recent weeks.

The first of these bubbles, of course, was the housing one, marked by officially-sanctioned fraudulent lending practices leading to the sub-prime mortgage collapse. By 2005, this bubble had been creating fifty percent of all economic growth in the U.S. But now that growth has reversed in a nationwide home price deflation.

The second was the explosion of leveraged debt in the areas of commercial real estate, mergers and buyouts by equity funds, and hedge/derivative fund speculation. This debt has also begun to unravel which is reflected in declining equity values in the stock market.

The third bubble has been the less conspicuous trillion dollars in off-budget spending for the Afghanistan and Iraq Wars which has kept the military-industrial complex in clover. Meanwhile government tax revenues have plummeted due to the Bush tax cuts for the rich and the continued erosion of the U.S. job base and our public and private infrastructures.

It is the bursting of these bubbles, combined with the absence in our economy of an engine to replace the decade-long habit by homeowners of staying afloat by cashing in on

their inflated housing equity, which is generating the crisis.

Let's look at the solutions various parties are proposing:

President Bush and many in Congress want to mail all taxpayers a rebate check of a few hundred dollars, cut business taxes, and possibly make the previous Bush tax cuts for the rich permanent.

An immediate infusion of purchasing power is a very good idea. Of course the amounts under consideration are a drop in the bucket and will do little good for people threatened with unemployment or suffering from stagnant incomes, inflation of food and fuel prices, and out-of-control debt. Also, the stimulus would probably be offset by more inflation and decline in the dollar due to the additional federal borrowing required to finance the rebates.

The current Federal Reserve Chairman, "Helicopter" Ben Bernanke, couldn't dream of topping the performance of Greenspan, the greatest bubble-blowing impresario in history, but seems to be willing to keep cutting interest rates toward the theoretical zero where they would barely keep abreast of inflation.

Trouble is, it's the massive speculative lending of the banking system which got us in so much hot water in the first place. More bank lending, even using the cheapest possible credit, won't get us out of it, because this only amounts to rolling over existing debt, not investing money in new production.

Investment for production in the U.S. is flat, because, supply-siders aside, people can't afford to purchase the stuff that's made. That's why Walmart has become the world's largest corporation by selling cheap products from China. It's all most American consumers can afford!

Cutting interest rates the way Bernanke has started to do has obviously been tried before. But it's not a cure-all when conditions are really bad. For instance, interest rate cuts at the beginning of the Great Depression in the early 1930s failed, because no one could pay back loans of any kind.

Japan tried the same thing in the 1990s with ultra-cheap credit, but this too failed to solve the problem of the stagnant Japanese economy. This is why Bernanke, in his wisdom, has also warned against expecting too much of the Federal Reserve when the whole financial system is fatally over-leveraged and when the only question is how big a "thud" the credit dirigible will make when it strikes earth.

What else? The Republican candidates for president all want more tax cuts along with reductions in federal spending. But the only sizeable expenditures left to cut, if the war machine and interest on the debt are sacrosanct, are Social Security, Medicare, and Medicaid. We'll see how that plays with the voters in November. The Republican candidates also rant against "pork barrel" infrastructure expenditures, which is one of the few economic stimulus measures the government still has available. In reality, McCain, Romney, et.al. are playing their fiddles to brain-dead conservative melodies while Rome burns.

On the Democratic side, Hillary Clinton is ever-more-obviously the pick of the elite establishment and the mainstream media as our next chief executive. Now that she, Bill, and their clones have succeeded in raising the racial alarms against Barak Obama, nothing

stands in her way.

Hillary is calling for job stimulation and fiscal austerity, the same program Bill tried under circumstances not nearly as lethal as today's. Bill Clinton in the 1990s had some success in attracting heavy foreign investment to mend the damage done to the economy by the Reagan Revolution until the post-dot.com recession at the end of his term swept much of that ephemeral and overleveraged progress away.

If asked, do you think Hillary would be able to tell you where the investment capital would come from for job creation other than by selling more and more U.S. companies and assets to foreigners who have benefited from the run-up of oil prices and the U.S. trade deficit?

Maybe I'm wrong, but continuing to sell our native land to the Chinese and Japanese and to the Middle Eastern oil sheikhs does not quite sound like good long-range policy for the land of the free and the home of the brave. Nor is it apt to improve "homeland security." Plus any new job creation program would have to be massive to counter the layoffs that have already begun, particularly in the financial and construction industries.

John Edwards speaks of "green infrastructure" investment in alternative energy sources. Not a bad idea, but again, where is the money going to come from? Plus Edwards' campaign may be dead after the Nevada caucuses where he got four percent of the vote.

Barak Obama, as far as I can tell, has no plan at all, except that everybody should be included in debating the solutions and that whatever is decided should help working families.

Dennis Kucinich has spoken of a "New Deal for the 21st Century," but his campaign for president has gone nowhere.

Then there are the assorted libertarians, gold bugs, etc., who it sometimes seems would just as soon see everything crash as long as they have safe investment havens where they can park whatever of value they hope to salvage from the disaster.

Not too promising, you might say, and you would be right.

Of course all these half-measures could be swept away if the crisis deepens into a full-blown depression, which is a real possibility. And like the Great Depression of the 1930s, this one could manifest not due to any failure of the producing economy to be able to manufacture just about anything wanted or needed for daily living, but because of a wholesale failure of what British economist John Maynard Keynes called "aggregate demand." That is, the money in the form of purchasing power simply is not there to float a full-employment economy.

The trouble is, Keynes's solution—government deficit spending—is not available anymore. Deficit spending is just another form of debt. The use of debt today as a stimulus goes way beyond federal borrowing. It's become a way of life for the entire economy. Today our total societal debt is not just the \$9 trillion federal deficit but an additional \$35-40 trillion for individuals, businesses, and state and local governments. Nixon had it right when he said, "We are all Keynesians now." But when he said this in the early 1970s, no one anticipated the catastrophic proportions that debt of all types would eventually assume under more than a generation of Federal Reserve monetarist policies.

The justification for debt, in the Keynesian view, is that it will result in enough economic growth to pay the debt off with some left over allowing us to live off the profits. A usually unspoken corollary is that inflation will erode the debt by allowing the government to pay it off with cheaper currency. But a slow-growth mature economy cannot outrun its debt, even at relatively low interest rates. And inflation eventually becomes a monster that simply eats everyone in the society alive.

That is where we are today, because the so-called business cycle is nothing but an inflation-deflation roller coaster. Since the 1970s, these cycles have become more severe, leading to today's "perfect storm."

So what should we do?

The first thing is to realize once and for all that the underlying cause of the looming disaster is the debt-based monetary system.

Under this system, credit is brought into existence through bank lending and cancelled when the loans are repaid. The economic activity that results is "taxed" at an unsustainable level not only by the government but by the compound interest accruing to the banks. This is why the banks are the most powerful institutions in the nation, by the way.

But it's a sick, rotten, unjust, and essentially medieval system, no different in principle from how the bankers of the old European cities drove their kings and princes into bankruptcy by financing their foolish wars. Eventually it's a system that results in the drastic shortage of purchasing power as today Bush, Congress, and the rest are waking up to the obvious solution of simply giving people more money to spend.

In reality, the government should give people much more money to spend than has been proposed or even conceived of—but not through more government borrowing from the Federal Reserve.

As this writer has argued, the first thing that should be done—today—is to pay each individual in the nation an average stipend of \$12,600 as a National Dividend, based on the overall appreciation of the economy due to harnessing the forces of nature and technology.

This stipend should be tax-free and should be paid now, without further delay. It would not be inflationary, because it would be a credit against the actual productivity of the nation and our ability to produce goods and services at will if people could afford to buy them.

Such a measure would immediately introduce almost four trillion dollars of purchasing power into the economy, an amount which would also reduce the quantity of debt people currently incur each year just to survive. The theory of a National Dividend has been explained by the Social Credit movement which is active in the British Commonwealth, is fiscally sound, and has been examined in detail by this author in his series of 2007 monetary articles. To see how it might work, take a look at the Alaska Permanent Fund, where each resident receives almost \$2,000 per year as a share in that state's natural resource revenues.

Secondly, the government should embark on a program of infrastructure restoration at least equivalent to the New Deal—but not for military industrial expenditures. This domestic spending should be financed not by taxation or government borrowing but by direct Treasury payments against a new national recovery account deriving from the use of credit

as a public utility. Such a program is sanctioned by the provisions of the U.S. Constitution which give Congress the authority to manage the monetary supply of the nation.

Both the National Dividend and the infrastructure spending program would be based on direct spending of U.S. Treasury currency from credit accounts maintained in the Treasury Department, not the Federal Reserve System. Transitioning from the existing system of debt-based Federal Reserve notes to direct infusions of cash in the form of Treasury currency would be as simple as flipping a switch.

At the same time, the banking system should be reined in. Lending should be allowed only under the “real bills” doctrine for the necessary support of daily commerce. Lending for any form of speculation or leveraged investment should be outlawed. Businesses should be unhampered in raising capital in the legitimate investment markets, but the takeover of business by Wall Street speculators that began in earnest during the Reagan administration and which has contributed so strongly to the disaster we are now facing must end.

How likely is it that the politicians will take these steps? Well, let’s see how bad conditions get. Is there anything we could do to encourage them in this direction? Let’s think about that for a moment. As far as I know, we are beyond the point socially where failure to pay off a loan is a crime. We don’t have debtors’ prison anymore. Yes, creditors can seize your assets, but how many assets do you really own in today’s drastically inflated and debt-ridden economy?

So suppose everyone just stopped paying those debts that are owed to financial institutions which have created them “out of thin air” through fractional reserve banking?

The first thing that would happen would be a massive infusion of debt-free money into the economy. This is because a debt repaid is credit cancelled off a bank’s books. If that money is not repaid, it continues to circulate. It helps producers produce and consumers consume. Actually the worst thing a person can do economically to his neighbor is pay his bank-generated debts, because that money then is no longer available to fuel the economy.

Such a wholesale systemic declaration of bankruptcy at the grassroots level would actually be a patriotic act if people quit paying their loans for the reasons and under the conditions specified above.

Not that I’m advocating such a course of action, of course, but wouldn’t it be interesting? It would certainly get the attention of those in power who have created such a mess. And it may be what happens anyway as the Depression of 2008 picks up steam.

*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. His book on monetary reform entitled *We Hold These Truths* is in preparation. He is also 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.*

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