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Justice Rising

Grassroots Solutions to Corporate Domination

Money for People Not Corporate Plunder

by Jim Tarbell and Ruth Caplan

Money is not God—but it does require the faith of the people to function effectively as an economic tool. It is part of our commons; a cultural invention, a tool to measure economic value, hold the wealth of our society and provide a medium for our economic transactions. We have a right to an efficiently functioning monetary system that promotes the public good.

The financial gambling of economic elites who have hijacked our monetary system threaten to destroy our entire economy. In *The Upside of Down*, Thomas Homer-Dixon foresaw an economic/political breakdown, drawing parallels with Rome as western capitalism becomes ever more complex and rigid. "We need to prepare to turn breakdown to our advantage when it happens—because it will," he prophesied in 2006.

So what should we be building toward? Clive Hamilton in *Growth Fetish* gives a good summation. "A post-growth society will consciously promote the social structure and activities that actually improve individual and community wellbeing. It will aim to provide a social environment in which people can pursue true individuality rather than the pseudo-individuality that is now obtained through spending on brand names and manufactured lifestyles."

How do we use this moment of great financial turmoil and hardship to set off down a new road? We must leave behind our virtual economy endlessly seeking more in a finite world, making money on money and using gross domestic product to measure economic health and happiness. We must turn toward an economy based on secure, living wages that facilitate the joy of time spent with family and friends and building community.

For this, we must build a strong, diverse movement of progressives and liberals as well as Main Street Republicans like those in Pennsylvania and New Hampshire communities standing up to corporations. We must embrace the greening of mainstream religion and listen to "the crunchy cons" and recognize the value of the social services provided by megachurches. Progressives must get out of their self-made, politically-correct box if they are going to build a movement with the necessary power to successfully challenge the power of Wall Street and corporate capitalism.

This issue of *Justice Rising* looks at our monetary system that now depends on private corporations to create what should be our common money supply. Banks take our deposits and create ten times more money by loaning our money for increasingly risky ventures. They are required to keep only a fraction of their deposits in reserve for customers to draw on. Regulators have allowed Wall Street to use this system of fractional-reserve banking, while also allowing banks to merge with investment firms and insurance companies, to create a virtual economy built solely on paper transactions, far from the real economy that services wage earners. This fantasy banking world is built upon fallaciously-valued, self-invented financial instruments. With their failure, disastrous runs on the biggest banks, that engaged in this phantasm, have crumbled our monetary system to the ground. Now their cronies in the Treasury and Federal Reserve are saving their skins by dumping truckloads of taxpayer dollars onto their balance sheets and by creating even more money out of thin air.

They have broken people's faith and confidence in the system. We have to regain control of our monetary system and make it a part of the commons that serves the public good. Now is the moment. This issue of *Justice Rising* is designed to send us on our way.

graphic: Matt Wuerker

Our economic institutions have failed, not only financially, but also socially and environmentally.

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Henry Paulson, former CEO of Goldman Sachs, was bailing out his friends from Wall Street at the expense of taxpayers.

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Private "money power" struggled successfully to wrest the power to create money from the government.

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Real physical growth makes us poorer, not richer.

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Beyond the Bailout:

Agenda for a New Economy

by David Korten

photo: creighton.edu

The financial crisis has put to rest the myths that our economic institutions are sound and markets work best when deregulated. Our economic institutions have failed, not only financially, but also socially and environmentally. With the election of a new president with a mandate for change, we have an opportune moment to rethink and redesign.

The real need is a bottom-up transformation of our economic values and institutions to align with the imperatives and opportunities of the 21st century. It involves a five-part agenda: clean up Wall Street, play by market rules, self-finance the real economy, measure what we really want and convert to debt-free money.

Our economy is wildly out of balance with human needs and the natural environment. The result is disaster for both. Wages are falling in the face of soaring food and energy prices. Consumer debt and housing foreclosures are setting historic records. The middle class is shrinking. The unconscionable and growing worldwide gap between rich and poor with its related social alienation is producing social collapse, which produces crime, terrorism, and genocide.

The financial services needs of Main Street economies are best served by a federally regulated network of independent, locally owned community banks

At the same time, excessive consumption is pushing Earth's ecosystem into collapse. Scientists are in almost universal agreement that human activity bears substantial responsibility for climate change and the related increase in droughts, floods, and wildfires.

We must hold Wall Street accountable, recover some of our losses from those responsible, and preclude another credit collapse. Additional steps will be needed to break up concentrations of corporate power, beginning with Wall Street, and to hold the remaining banks accountable to the public interest. Treasury Secretary Henry Paulson's decision to buy a government equity stake in troubled banks is a positive step that may open the way to a deeper restructuring of the financial system.

The federal government should immediately reinstate the provisions of the Glass-Steagall Act prohibiting the merger of commercial and investment banks, and force the breakup of financial conglomerates and any other Wall Street institutions that are too big to fail. As Senator Bernie Sanders has observed, "If a company is too big to fail, it is too big to exist."

Socially efficient market allocation depends on a number of important conditions that Wall Street and those economists devoted to the ideology of neoliberal market fundamentalism routinely ignore. These include:

- Market prices must internalize full social and environmental costs.
- Trade between nations must be in balance.
- Investment must be local.
- No player can be big enough to directly influence market price.
- Economic power must be equitably distributed.
- Every player must have complete information and there can be no trade secrets

Creating a fair distribution of wealth by restoring progressive tax rates, increasing the minimum wage, containing health care costs, and regulating mortgage and credit card interest rates is an essential element of a post-bailout economic agenda. This will help those at the bottom, restore household savings and purchasing power, and, combined with the debt-free money system, eliminate Main Street dependence on Wall Street financing. The financial services needs of Main Street economies are best served by a federally regulated network of independent, locally-owned community banks that fulfill the classic textbook banking function of acting as intermediaries between local people looking for a secure place for their savings and local people who need loans to buy a home or finance a business.

The only legitimate function of an economic system is to serve life. We are now paying the price for years of managing the economy for financial performance, that is, making rich people richer.

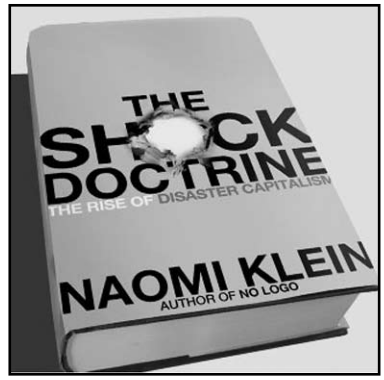
We can continue to track GDP as a useful indicator of the economic cost of producing a given level of health and well-being. But we must recognize that GDP represents cost, not gain.

A number of researchers have been pointing out that happiness, as well as other indicators of human, social and environmental health, have been declining even as GDP increased. The shock of financial collapse creates an opportunity to draw attention to this substantial anomaly. We will know we have turned an important corner when business news reporters happily announce, "It has been a successful quarter. Happiness rose by two points and GDP is down by one point."

This is a condensed version of an article written as part of Sustainable Happiness*, the Winter 2009 issue of* YES! Magazine. *David is author of* When Corporations Rule the World *and* The Great Turning: From Empire to Earth Community. *His new book,* Agenda for a New Economy: From Phantom Wealth to Real Wealth, *is due out in early 2009.*

Naomi Klein on the Financial Crisis

These are excerpts from an October 17, 2008 interview with Naomi Klein on Corporations and Democracy, heard on KZYX, first and third Fridays at 1 PM. Streaming at www.kzyx.org.



My book, *The Shock Doctrine,* is a history of how we ended up with this savage brand of deregulated capitalism imploding on Wall Street. The elite use crisis to avoid democratic debate and push through unpopular policies. Paulson's quickly discarded two-and-a-half page plan that gave him total impunity to buy 700 billion dollars of toxic debt from Wall Street and have his decisions shielded from any court challenges, would have been an economic coup d'etat.

It also taught people to be shock resistant and to stay alert and vigilant in a crisis. There was a great edition of the Daily show where John Stewart's staff got together Bush's speech about WMDs leading up to Iraq and his "give me 700 billion dollars or the banks are going to start closing in your neighborhood." People took the time to read the plan and were stunned by its gall. They were convinced that Henry Paulson, former CEO of Goldman Sachs, was bailing out his friends from Wall Street at the expense of taxpayers.

Wall Street greed has been driving this market in speculative instruments. They have been enormously profitable for the elites. Lobbyists for the financial industry put enormous pressure on Congress to deregulate so the elites could have their profitable bubble. The elites were not concerned about the inevitable popping of the bubble because their enormous bonuses hedged against it.

The big banks getting bigger is part of the madness at the Treasury. Although Treasury recognizes that these banks are "too big to fail," they arrange all of these shotgun weddings between failing banks making them bigger. *The Financial Times* predicts that the US is heading toward having three banks. Left to their own devices, the Bush administration used the crisis to waive regulations right, left and center. They pumped money into banks without any strings attached. It has just been a gift to the banks.

It is wrong of the Treasury to save these failed banks. The banks have shown themselves to be unworthy of the enormous trust the public has placed in them. They should have been allowed to bankrupt themselves and then been taken over by the state. These huge companies should be broken up. Congress should reestablish the Glass Steagall Act [1933] to separate the investment banks from the consumer banks from the insurance industry.

The high degree of cooperation between central banks and finance ministries in Europe, Asia and the United States is an opportunity to slow down the casino economy at the international level. Governments should implement the Tobin Tax to tax currency trading and close down tax havens.

There are all kinds of international measures that can be taken beyond just injecting more liquidity into the banks. People should be demanding that their governments build a better system.

This crisis in the private financial sector is causing a crisis in the public budget. It is Republican insurance against an Obama presidency. Obama is making promises that are exciting to younger voters about investing in alternative energy infrastructure and jobs. Where he is saying "yes we can," the Republicans are saying "no you can't. We have an economic crisis on our hands that we just created and dumped on your lap and we can not afford any of your big plans." Henry Paulson, in announcing the new deficit numbers, said we are going to have to reexamine entitlement programs, which means health care and social security. They are already talking about scaling back the meager protections that exist.

It is going to be tough to finance a green new deal. Progressives have to be willing and ready to argue for taxing the oil and gas industry to finance the green new deal and for cutting back on the defense industry. The deals that are being struck are going to limit our ability to deal with the climate crisis.

The most important thing that people can do now is to call their member of Congress and try to get word to Obama that the Paulson plan needs to be abandoned completely.

The most important thing that people can do now is to call their member of congress and try to get word to Obama that the Paulson plan needs to be abandoned completely. These are awful deals for the taxpayers. We need to start getting really good terms as we nationalize the banks, including regulation and control of this out of control sector. We need real returns for taxpayers because this is the money that

Naomi Chooses Change

If I were to choose five changes in federal economic policy, they would be 1) single payer health care, 2) a tax on trading, and 3) a profound windfall profit tax on the oil and gas industry to finance a transition to alternative energy.

Every time I hear the profits reported by Exxon and Chevron, it is illegitimate money to me because they have left us with this climate catastrophe and a huge cleanup bill. We have to clean up after them, while the profits are going to their shareholders. We must find a way to get more of those profits into the hands of the public to be invested in the solutions to the problems they have created. This idea in market-based green solutions is a sham, particularly in an economic slowdown. The market is not going to solve global warming for us and carbon trading is another bubble.

4) We need to completely abandon this idea of buying up the toxic debts.

5) We have to nationalize the banks and restructure the bonuses so they are not based on how much people made in the previous quarter, but cover a span of five to ten years. The biggest change though, is campaign finance reform, the one that makes all of the other ones possible.

People vs Money Power

by John B. Cobb, Jr.

We often speak of "Wall Street." Earlier in American history people spoke of "money power" as the chief threat to a society where rulers served the people. I would like to see that term renewed.

Important to the history of the United States has been the question of who would create money and control its use. Throughout the history of the United States, private "money power" struggled successfully to wrest the power to create money from the government.

It is possible that the American public will retake the power to create money and manage the economy from the financial gamblers who have led the nation into catastrophe.

The control of money by private individuals and groups has always given those individuals and groups enormous political power. Because money power has operated across national boundaries, it often leads to unfavorable policies and actions. In recent decades, "money power" is the chief source of funding electoral campaigns. It also exercises great influence in university economic departments, so the "expert" testimony in a Congressional hearing almost always supports money power.

In recent years, the limited ability of the economy to absorb loans has hindered the ability of the banks to create money. The derivatives market— five times larger than the stock and bond market globally—solved this problem by providing an almost unlimited market for the investment of money. Yet at the behest of "money power," Congress passed a law forbidding the government to regulate this market in any way.

"Money power" also assumes that it is too big to fail and the government will bail it out when the financial system is in trouble. Its demand that it be given 700 billion dollars with no strings attached and no supervision of the distribution was a truly extraordinary act of arrogance

THE PLAIN ENGLISH OF IT.
If Money Power Puts Up Enough Boodle Hanna Expects To Deliver The American People Bound Hand and Foot Into Slavery

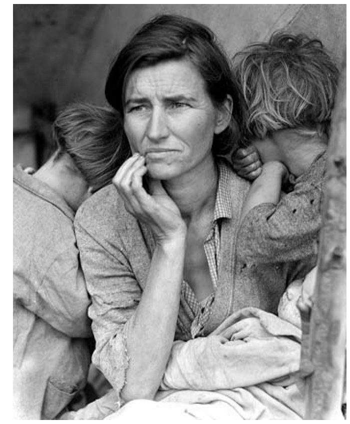


photo: Dorothea Lange

Obama has announced a team of economists to solve the financial crisis made up of people who belong to "money power." The idea that industrialists and labor unions and ordinary citizens should participate in finding a way out of the mess created by "money power" is not even discussed.

The enormous gift to the financial institutions will be used to show that we cannot afford to improve government services to the poor or provide health insurance for all. Our educational system will suffer, along with Social Security. In other words, interest on the debt to "money power," along with "money power's" political ability to avoid taxation, will mean that we can only afford to pay our debts and support our military.

"Money power" will use this shock to concentrate wealth and power in still fewer hands. Huge sums are being given to supposedly healthy institutions to buy up weaker ones. We will be told that the solution is to globalize finance even further. Its "regulation" will then be in the hands of "money power" and nations will be further disempowered to manage their own economies.

With the faltering derivatives market worth 500 trillion dollars, the few trillion the US government can throw into the breach may not stop the meltdown. It is possible that the American public will retake the power to create money and manage the economy from the financial gamblers who have led the nation into catastrophe. If the government takes control of the monetary system, and ends the fractional reserve banking system, the size of the virtual economy will be greatly and permanently reduced. Also, "money power" will no longer be able to control the government, the universities, and the media. The government will be able to accomplish many of its goals by spending and lending money into existence. We may gradually recover from the disaster of globalization and the virtual financial economy and be able to replace the real economy we have lost. The rebuilt economy can be a green one. People will understand what it takes to preserve popular rule. These changes will be a true revolution, one that fulfills the purposes of the first one.

John Cobb, Jr. has a Ph.D from the University of Chicago Divinity School. He is professor emeritus from the Claremont School of Theology and co-author with Herman Daly of For the Common Good: Redirecting the Economy toward Community, the Environment, and a Sustainable Future.

Real Wealth or a House of Cards

by Herman Daly

The current financial debacle is really not a "liquidity" crisis as it is often euphemistically called. It is a crisis of overgrowth of financial assets relative to growth of real wealth. Growth in US real wealth is restrained by increasing scarcity of natural resources, both at the source end (oil depletion), and the sink end (absorptive capacity of the atmosphere for CO_2). Further, spatial displacement of old stuff to make room for new stuff is increasingly costly as the world becomes more full, and increasing inequality of distribution of income prevents most people from buying much of the new stuff—except on credit (more debt).

Marginal costs of growth (the change in total cost of producing one additional unit) now likely exceed marginal benefits, so that real physical growth makes us poorer, not richer. To keep up the illusion that growth is making us richer, we deferred costs by issuing financial assets almost without limit, conveniently forgetting that these so-called assets are, for society as a whole, debts to be paid back out of future real growth. That future real growth is very doubtful and consequently claims on it are devalued, regardless of liquidity.

What allowed symbolic financial assets to become so disconnected from underlying real assets?

First, there is the fact that we have fiat money (based solely on the government designating it as legal tender) not commodity money. For all its disadvantages, commodity money (gold) was at least tethered to reality by a real cost of production.

Second, our fractional reserve banking system (wherein the banking system can create multiple amounts of new money for each dollar of new deposits) allows pyramiding of bank money (via checking accounts) on top of the fiat government-issued currency.

Third, buying stocks and "derivatives" on margin (borrowing funds to pay for some portion of the investment) allows a further pyramiding of financial assets on top of the already multiplied money supply.

In addition, credit card debt expands the supply of quasi-money as do other financial "innovations" that were designed to circumvent the public-interest regulation of commercial banks and the money supply. I would not advocate a return to commodity money, but would certainly advocate 100% reserve requirements for banks (approached gradually), as well as an end to the practice of buying stocks on the margin.

All banks should be financial intermediaries that lend depositors' money for investment in the real economy, not engines for creating money out of nothing and lending it at interest. If every dollar invested represented a dollar previously saved we would restore the classical economists' balance between investment and abstinence. Fewer stupid or crooked investments would be tolerated if abstinence had to precede investment. Of course the growth economists will howl that this would slow the growth of GDP. So be it—growth has become uneconomic at the present margin as we currently measure it.

Fewer stupid or crooked investments would be tolerated if abstinence had to precede investment.

The agglomerating of mortgages of differing quality into opaque and shuffled bundles should be outlawed. One of the basic assumptions of an efficient market with a meaningful price is a homogeneous product. For example, we have the market and corresponding price for number 2 corn—not a market and price for miscellaneous randomly aggregated grains. Only people who have no understanding of markets, or who are consciously perpetrating fraud, could have either sold or bought these negative pigs-in-a-poke. Yet the aggregating mathematical wizards of Wall Street did it, and now seem surprised at their inability to correctly price these idiotic "assets."

And very important in all this is our balance of trade deficit that has allowed us to consume as if we were really growing instead of accumulating debt. So far our surplus trading partners have been willing to lend the dollars they earned back to us by buying treasury bills—more debt "guaranteed" by liens on yet-to-exist wealth.

Our brilliant economic gurus meanwhile continue to preach deregulation of both the financial sector and of international commerce (i.e. "free trade"). Some of us have for a long time been saying that this behavior was unwise, unsustainable, unpatriotic, and probably criminal. Maybe we were right. The next shoe to drop will be repudiation of unredeemable debt either directly by bankruptcy and confiscation, or indirectly by inflation.

This piece is condensed from Credit Crisis, Financial Assets, and Real Wealth *posted at theoildrum.com.*

Herman Daly is a former World Bank economist and Professor of Ecological Economics at the University of Maryland. His books include Steady State Economics *and* For the Common Good. *with John Cobb, Jr.*

graphic: David Brown

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JUSTICE RISING is a publication of **The Alliance for Democracy,** whose mission is to end the domination of our politics, our economics, the environment, and our culture by large corporations. The Alliance seeks to establish true economic and political democracy and to create a just society with a sustainable, equitable economy.

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Justice Rising

How do we use this moment of great financial turmoil and hardship to leave behind the frenzy of a consumer-based economy seeking "endless more" and to create an economy where the Gross Nurturing Product is more important than the Gross National Product? When will liberals, conservatives, progressives and radicals agree that it is more important to find joy in time spent with family, friends and community than consuming stuff that pollutes the planet and hastens a global meltdown? When will we start providing health care for all through a federal single payer program?

We have to put these questions under consideration by the Obama administration and Congress as they create an economic stimulus package to get the imploding economy back on track. We can also insist that the Obama administration provide an extra billion dollars to Community Development Financial Institutions to boost our neediest communities.

Herman Daly, the father of ecological economics, points out that we are not having a "liquidity" crisis, we are having a crisis of financial assets not being rooted in real wealth. Up through the present, real wealth has been grounded in using up all available natural resources and not having anywhere to put all the waste. We have been raping the earth.

It is time to move toward a steady-state economy where the earth is not depleted. This means basing as much of our economic activity as possible on low-impact social services; on local production to meet community needs including local, organic agriculture; on the arts that lift the spirit. Products that are manufactured must be repairable, reusable and ultimately recyclable. Detroit needs to be retooled to provide energy-efficient public transit, not rescued just to produce more cars. All products and activities must be based on their energy efficiency.

Will this remain just a utopian vision or can we come together to make the vision a reality? To do this, we must take control of how money is created and used. First, the government must end fractional reserve banking, the underpinning of the virtual economy. Second, it must end the casino economy by banning hedge funds and derivatives, like credit default swaps and collateralized debt obligations. Third, we must have banks that work for the people like local community banks and the National Infrastructure and Development Bank we have proposed. These are concrete steps. The time to begin is now.

Justice Rising, Blog and Future Issues

Justice Rising has a blog for comments, letters, updates on issues as well as commentary on corporate domination of our society. Find it by clicking on the Justice Rising Blog button on the right side of the AfD homepage or use the url, http://afdjusticerising.blogspot.com. Go there to see information and updates on our evolving economy, along with *Justice Rising* coverage of the national political conventions.

This *Justice Rising* was co-edited by Ruth Caplan. She was elected Co-chair of the AfD National Council at the founding convention in 1996. She currently co-chairs the Corporation Globalization/Positive Alternatives Campaign with Dave Lewit and is the National Coordinator of the Defending Water for Life Campaign. Her years of activism include creating the Economics Working Group which developed a General Agreement on a New Economy, GANE not GATT.

Ruth Caplan will also co-edit the next issue of *Justice Rising*, that will look at our progress toward restructuring the economy and moving in a sustainable direction. Send submissions to rtp@mcn.org by March 1, 2009.

AfD Promotes Banking, Health & Water for All

The AfD is taking concrete steps to start us down the road to a new economy. We have reactivated our single-payer health care-for-all campaign to work at the state and national levels. This healthcare solution, modeled on Medicare where the government pays and the private sector provides, would actually save the country $350 billion a year. As National Council member, Dr. Peter Mott, says in his widely circulated op-ed, "The private insurers have had decades in control. They have had their chance, and they have left us in a mess: Ranked 37th in the world by the World Health Organization for health care delivery; 1/3 of our population un- or under-insured; costs higher than any other nation; many parts of our population with poor care; higher morbidity and mortality rates than any other developed nation. It's time to fight!" This campaign will be featured on our website and in our e-mail alerts. See the Winter 2008 *Justice Rising* on Health Care for a thorough discussion of this issue.

We will also be very closely tracking the proposal for a National Infrastructure Bank proposed by Felix Rohatyn and introduced last fall by some heavy hitters–Senator Dodd, Banking Committee Chair, and Representative Barney Frank, Chair of the Financial Services Committee. This is very different from our proposal for a National Reconstruction and Development Bank (see pages 8–9). We expect legislation will be reintroduced. This will be our opportunity to showcase how we think the banking industry should be structured. Stay tuned.

Third, we will be joining with other advocates of federal funding for upgrading municipal water/sewer systems which needs to be a significant piece of the economic stimulus package being prepared for early Congressional action.

Shock Them Back

by Emily Posner and Luke Allen

Naomi Klein's *Shock Doctrine* describes how "shocks" to our daily routine create the political and cultural climate within which economic rules can be rewritten. Through these shocks, big business and government have been able to synchronize free-trade policies worldwide and create a consumer climate to support this economic agenda.

Klein points out that the psychological disruption of these shocks softens entire societies, leaving us to yearn for a quick-fix solution. Whereas sometimes political elites take advantage of these shocks to promote their own agendas, at other times they fail, leaving communities to fulfill their own basic needs.

In Argentina, neoliberal economic failure in 2001-2002 paralyzed the country. Banks froze assets, unemployment skyrocketed, factories closed and presidential leadership changed 4 times in just a few months. Communities responded to government failure by organizing neighborhood councils. Workers occupied abandoned factories. Families planted hundreds of thousands of urban gardens and started community cafeterias. Barter fairs became a standard way to exchange goods in the absence of monetary capital.

Just as regular Argentines were left stranded by a failing economy, New Orleanians were abandoned by our government in 2005, after the (un)natural disaster of Hurricane Katrina. In the absence of private or public relief services, the people came together to save themselves. Independent journalist, Jordan Flaugherty reports the reality of those left to die by our government:

> Denise [Moore], one of those trapped in the Convention Center told family members, "yes, there were young men with guns there, but they organized the crowd. They went to Canal Street and 'looted,' and brought back food and water for the old people and the babies, because nobody had eaten in days."

Where there should have been government relief services, a power vacuum emerged as the housing, water, food and health-care crisis in the city exploded. Energies of people of conscience from around the world filled the vacuum. They worked with New Orleans residents to open free health and legal clinics, build workers' rights centers and bike shops, start community gardens and after-school programs, create food distribution centers and community kitchens, and to replant the wetlands. For every seed that is saved, meal that is served, health consultation provided, bike distributed and factory in operation, we can see what happens when philosophies of cooperation, mutual aid and solidarity amongst peoples are presented as a viable option in the face of crisis.

Today the corporate economic cartel is trying to take advantage of the financial crisis shock to increase their wealth. This is evident with the Bush Administration's economic bailout plan and the stated goals of the G20. On the other hand, everyday people are not looking to Washington, or the stock exchanges as saviors to global economic problems. Instead, solutions are being found within ourselves, families, neighbors, and communities. In Cook County, IL, the Sheriff's Department will no longer do the work of the banks and serve foreclosure related evictions. The Central Maine workers cooperative, FED-CO Seeds, a regional agricultural supplier, has seen its business increase by 25 percent in every department in the last year due to more people growing their own food. And in Uruguay, the people are exploring ways to promote cooperative enterprises.

We hold the solutions to our problems. Our answers will be numerous and reflect the cultural and ecological diversity of our communities. This is a golden opportunity to shift our economic priorities, rearrange the way we spend our money, and break our dependency on big business and big government to meet our basic needs. We have a duty to ourselves, our families, the earth and future generations.

Politicians and economists have shocked us enough over the last four decades, its time to shock 'em back!

Emily Posner is an off-the-grid homesteader living and working cooperatively on an organic farm in Montville, Maine. She is also the organizer for the Alliance's Defending Water for Life in Maine Campaign. London born Luke Allen's documentary projects include Arlington House Camden Town *and* The House That Herman Built. *He is currently collaborating on the* Campaign to Free The Angola 3 *while residing in New Orleans, LA.*

We hold the solutions to our problems. Our answers will be numerous and reflect the cultural and ecological diversity of our communities.

Distribution Center after Hurricane Katrina

Banking for a Livable Future

Why the Nation Needs a National Reconstruction and Development Bank and How it Could Be Used to Invest in Communities, Creating Jobs and a More Satisfying Life Not Dependent on Consumption of "Endless More."

by Ruth Caplan

We need our tax dollars to be used to create jobs where real work in the real economy will build healthy and sustainable communities,

First came the news of mortgage defaults, trickling in through a few human interest stories about poor families who slipped and fell down on the way to the middle class. Soon the press was reporting a crisis in subprime mortgages. Then with the news of the Bear Stearns collapse in March 2008, the crisis had hit Wall Street. The Federal Reserve, in a harbinger of what was to come, stepped in with $30 billion to buy Bear Stearns' toxic assets. Housing, part of the real economy, was being crushed by the weight of the virtual economy built on speculation.

By now polling showed 3 in 4 people, who were trying to make do in the real world, believed that the country was in a recession. Economists, mesmerized by numbers and computer models, would take at least another 6 months to utter the "R" word.

Today we know Bear Stearns was just the tip of the "virtual economy" iceberg, which is in the throes of a meltdown. Rather than being built on the solid ground of real goods and services, the virtual economy has been operating as a gambling casino where money is borrowed to place bets on whether stocks will go up or down, where subprime mortgages are packaged and sold as AAA investments, and where unregulated credit-default swaps are sold as a form of insurance in an effort to prop up the system. Others have referred to the way the virtual economy is operating as a Ponzi scheme where exponential growth pays off fraudulent investments.

So, what we see now is the US Treasury and Federal Reserve bailing out the virtual economy while studiously ignoring the real economy of homes where people live and of the cars that people drive to get to work.

National Reconstruction and Development Bank

We need our tax dollars to be used to create jobs where real work in the real economy will build healthy and sustainable communities, while protecting our natural environment. This is exactly what the National Reconstruction and Development Bank (NRDB) is intended to do. The bank will make loans for investments in making our communities become a place where people can find pleasure in spending creative time together rather than staying on the treadmill of a consumer economy based on "endless more."

This is the moment to shift investment in the real economy away from our unsustainable path of "manufactured needs" and "planned obsolescence." As a bumper stickers says, "More fun, less stuff."

Top priorities for investments in our communities include:

- Municipal water/sewer infrastructure to ensure safe, affordable drinking water for everyone;
- Energy efficiency for our homes, office buildings and workplaces, public transportation, and decentralized solar/wind;
- High quality public education for all, including construction/renovation of schools;
- Improving health care by constructing/renovating clinics and hospitals and by maintaining adequate levels of staffing;
- Assistance to families who need help with mortgages to keep their homes and preserve our communities;
- Community and arts centers, playgrounds, recreation facilities, parks to enhance civic life.

These investments and others like them will provide permanent local jobs as well as essential services, enhance our social capital, reduce the cost of living, slow climate melt down, and help build an economy based on mutual enjoyment, not rampant consumerism that is destroying our planet.

We also need to invest in our national infrastructure so that vital services are not controlled by corporations. We can do this by:

- Fully funding public radio and TV to eliminate all corporate sponsorship and ensure unbiased reporting;
- Providing Medicare for All;
- Ensuring viable and affordable long-distance public transportation;

And we need to encourage regional recirculation of production and trade in goods and services that will minimize transportation costs and maximize reuse and recycling.

Funding for the NRDB should include:

- Taxing all investment transactions;
- Heavily taxing speculator profits;
- Enhancing progressive income and inheritance taxes; and
- Eliminating the tax preference for capital gains and overseas investments

Congress needs to authorize the overall allocations and appropriate the funds for national infrastructure, for regional recirculation, and for

community investments. Disbursement for regional and community projects needs to be decentralized to best assess community needs and to ensure accountability. Local allocation boards should include representatives from labor, civic organizations, educational institutions, and local government.

Community Interest Companies

How can we be sure that these funds serve the intended purposes and not morph into another get-rich-quick scheme of the casino economy? One answer is by creating and funding "community interest companies" (CIC) modeled after the more than 2000 CICs already operating in Great Britain under The Community Interest Act of 2004.

The CICs are designed for social enterprises that want to use their profits and assets for the public good. The official CIC website says "CICs can accommodate co-operative, not-for-profit, voluntary or commercial models as long as all its activities contribute to providing benefit to the community.... Funding to set up CICs can come from local, regional, central government sources as well as from charities."

Wikipedia points out that: Social enterprises tackle a wide range of social and environmental issues and operate in all parts of the economy. By using business solutions to achieve public good, it is believed that social enterprises have a distinct and valuable role to play in helping create a strong, sustainable and socially inclusive economy."

We know all too well that publicly-traded corporations must run their businesses to benefit their shareholders and we've seen the havoc created by investing in the virtual economy. Community interest companies must run their businesses to benefit the community and to create more jobs with livable wages, not to make CEOs and investors rich. They can be set up to operate nationally, internationally and locally.

In Scotland, the Climate Challenge Fund provides grants to fund local CICs working on climate change projects at the local level. So far £1,165,761 ($1.7million) has been allocated to 18 community projects across Scotland. This is an example of how the NRDB could operate.

Yansa is an international CIC, which is "planning to manufacture wind turbines and other renewable energy equipment in order to promote community-owned, renewable-energy systems, as well as technological development and education in renewable energies...Our aim is to contribute to a just and participatory transition away from the current global energy system based on centralisation and fossil/nuclear fuels, and into decentralised, clean and renewable sources of energy."

In Coventry, England, a CIC provides free doula (birth coaching) services to "disadvantaged mums-to-be."

What's going on in the US?

In April 2008, Vermont enacted a law to set up low-profit, limited liability corporations, L3Cs, somewhat similar to the CICs. The purpose is to allow foundations to loan seed money at low or no interest for enterprises that will fund job training and job creation in areas of their charitable interest. Thus as they get paid back, they will have more money to loan. With grants, foundations are totally dependent on the earnings from their investments. This is also intended as a way to attract private capital to social ventures. By September, eleven L3Cs had been created. Similar proposals are pending in Georgia, Michigan, Montana, Oregon, Minnesota and North Carolina. This is one step in the right direction.

President-elect Obama talks about change. This is the kind of change we need and it's time to let him know!

Community Interest Companies must run their businesses to benefit the community and to create more jobs with livable wages,

Not The National Infrastructure Bank

Do not confuse the NRBD with the National Infrastructure Bank proposed by Felix Rohatyn, Under-Secretary for Commerce in the Clinton Administration. Rohatyn chaired the Commission on Public Infrastructure whose recommendations were incorporated into the National Infrastructure Bank Act of 2007, introduced by Senators Chris Dodd and Chuck Hagel both of whom served as members of the Commission. House Financial Services Committee Chair, Barney Frank, introduced a companion bill. Here are a few of the key points, quoting Rohatyn:

* The Bank would be "similar to the World Bank, a private investment bank, or any other entity that evaluates project proposals and assembles a portfolio of investments to pay for them." **Our response**: *The World Bank is hardly a model we would espouse.*

* "We propose this bank because we believe that markets for capital do work and can be harnessed to solve the critical shortfall in funding infrastructure. **Our response:** *Yes, we see how well markets work in the current financial meltdown with taxpayers bailouts.*

* A "National Infrastructure Bank could redirect private efforts away from refinancing old facilities—as in the case of Chicago's Skyway—to building new ones" **Our response:** *We don't want privatized infrastructure either by current means or via this bank.*

* "...most of the funds the federal government now spends on existing programs (along with many of those program's experts and facilities) would be transferred to the bank, which could not only finance the projects, but also resell the loans it makes to investors in capital markets, much as other assets are rebundled for investors." **Our response:** *Sure and sell us a pig in a poke—rebundling mortgages is just what led to the present financial crisis.*

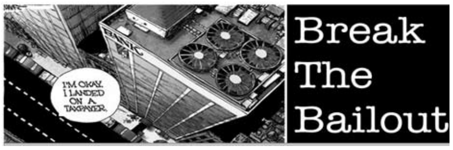
GROUPS—Money for People —

The American Monetary Institute works to demystify the role of money in society and points out that money power controls our monetary system and, through it, our entire society. Their website has a *Brief Monetary History of the United States* and *Our Reaction to the Criminally Insane $700 billion Proposed Grab.* They have also proposed The American Monetary Act, which returns jurisdiction over the US monetary system to our elected government from the banker-dominated Federal Reserve.

Bailout Main Street.com. With leading endorsers from Noam Chomsky to Healthcare-NOW, this campaign will have great appeal to progressives. They are gathering endorsers on their website, saying: "We need to organize in the workplace. We need to organize in the schools. We need to organize in the streets, in our neighborhoods, in our communities. And we need to be clear about what we're for: A Just Economy for All Americans; one that creates 21st Century productive jobs, instead of relying on debt-driven consumption to sustain the economy."

The Road to Economic Recovery has already begun holding Town Hall meetings and teach-ins around the country. National sponsoring organizations include Institute for Policy Studies, Jobs with Justice, National Community Reinvestment Coalition, US Action/True Majority, and United for a Fair Economy. They held 30 Town Hall meetings the week of December 7-13 across the country.

Coalition for Community Development Financial Institutions. CDFIs are trailblazers in their communities, leading the way for investing in distressed urban and rural neighborhoods and bringing people into the economic mainstream as contributors to the economy. Their links page can be used to find CDFIs around the country including Community Development Venture Capital organizations and Community Development Credit Unions. People can also help urge Congress and the Obama Administration to allocate a billion dollars to CDFIs as part of the Economic stimulus package.



Break the Bailout. Linked to Breakthematrix.com promoting Ron Paul's libertarian ideas, this campaign is broader in potential appeal. It is primarily web-based but hopes to expand to door-to-door canvassing and town meetings. They say: "We come together, as conservatives, progressives, libertarians, liberals and moderates to break the bailout; we see it as theft from the taxpayers by the banksters, Big Finance and Wall Street... We're going to be using the modern advocacy device known as 'civil informationing.' This is 21st Century advocacy, a strategy that rapidly spreads educational information through the public. We'll be starting that on the Break the Bailout Internet Show (Weekdays at 8 PM). By educating the public in a rapid and broad-based way, Break the Bailout will decentralize power and leadership.

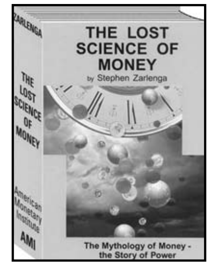
The People's Summit Against the G20. Under the rally cry of "New Ideas After the Capitalism Casino Goes Bust," young people came together in Washington, DC November 14 to 16 for protesting, mutual learning and organizing. **Global Call to Action to Demand a New Economic System**, also linked to the November G20 meetings, is a call that originated in the Global South and quickly spread around the globe. Calling for "new principles and rules to build an economic system that works for the people and the planet," the statement is signed by 230 organizations from 51 countries, including the Alliance for Democracy. It says "Enough with market fundamentalism." The so-called "Washington Consensus" that has preached deregulation, privatization, the over-leveraging of banks, and trade and capital liberalization is discredited and should be officially abandoned.

Not Corporate Plunder—BOOKS

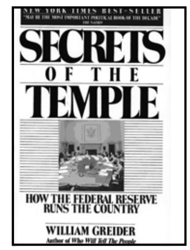
by Jim Tarbell and Ruth Caplan

Dozens of books on the 2008 financial crisis are on the shelves and that number is increasing as fast as Wall Street speculators are falling. The big sellers are by Krugman, Soros and Kuttner. David Korten's book ***Agenda for a New Economy: From Phantom Wealth to Real Wealth*** is due out on January 21. Korten points out that "The financial failure now in the public spotlight is only the tip of the iceberg. The system's social and environmental failures are even more critical. Putting patches on a failed system is like treating a cancer with band-aids." He "outlines an agenda to liberate the latent entrepreneurial energies of Main Street from Wall Street's deadly grip and bring into being a New Economy devoted to creating the real wealth needed to provide a better life for all while bringing human consumption into balance with finite ecosystems." This crisis is only a symptom of larger problems and the four books reviewed below give depth and background to those issues.

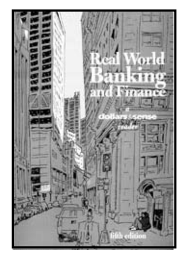
Stephen Zarlenga's exhaustive tome, ***The Lost Science of Money: The Mythology of Money, the Story of Power*** covers the history of money and the modern institutions that handle it. He indicates that monetary systems work better when they are part of the commons. His consistent analysis shows that, contrary to popular perception, government control of the monetary system is much better than private banker control. As he says, "by misdefining the nature of money, special interests have often been able to assume the control of society's monetary system and in turn, the society itself." His analysis starts in pre-Roman times and explores the religious, social and transactional aspects of money. What follows is a history of the western world through the lenses of money and monetary systems. It traces the growth of capitalism and the seizure of national monetary systems by private banks. His US monetary history is illuminating, and he has an unusual, but relevant, chapter on the social justice of Islamic banking. He ends with three recommendations for our democracy to retake control of our monetary system. For more information, visit the website of the American Monetary Institute at www.monetary.org.



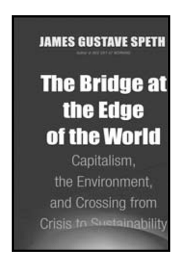
William Greider's ***Secrets of the Temple: How the Federal Reserve Runs the Country*** is a thorough—though slightly dated—overview of the US central bank, money in America and the tension between capitalism and democracy. His chapter on money explores the deep psycho/social role of money in modern life. His history of the Fed traces the loss of democratic control over our monetary system and the consolidation of the power of the biggest banks to use the financial system for their own benefit and security. He traces the rise of the virtual financial economy and its separation from the real economy of our daily lives and touches on the growing power of capital to gain profits while wages falter. He concludes that, "If one understood money's secrets, the true nature of the American social reality was made plain... Limitations were imposed on the idea of democracy and sovereign citizens passively accepted them. Money defined the social hierarchy,...which valued some above others."



Real World Banking and Finance, published by the Dollars and Sense Collective, is an unexpected view of banking and finance over the last 20 years. This is a compilation of 60 articles by dozens of writers ranging from Nobel laureate Joseph Stiglitz to guerilla journalist Greg Palast. Published in 1992, its eighth edition came out in 2008 and includes prescient pieces about the continually unfolding financial crisis from the growth of the housing bubble to the speculative risks undertaken by the big banks. Don't let anyone tell you that no one saw this coming. These guys saw it a long time back. There are illuminating pieces about how the Fed works and what could make it better. One chapter deals with the Bush administration gambit to privatize social security, as well as most other retirement accounts. Its warnings of the ludicrous reality of this policy is only proving too true today as all retirees wipe their brow in relief that not all retirement accounts disappeared down the subprime and derivative rabbit hole—unless taxes, inflation and economic collapse suck it all dry anyway.



In ***The Bridge at the Edge of the World, Capitalism, the Environment, and Crossing from Crisis to Sustainability,*** James Gustave Speth, Dean of Yale School of Forestry and Environmental Studies, says we need a real environmental movement. He discusses the movement in terms of rights: "the right to water and sanitation, the right to sustainable development, the right to cultural survival... the rights of future generations." Speth calls for "a profound challenge to consumerism and commercialism and the lifestyles they offer, a healthy skepticism of growthmania and a sharp focus on what society should actually be striving to grow, a challenge to corporate dominance and a redefinition of the corporation and its goals, a deep change in both the functioning and the reach of the market, and a commitment to building...'the democratization of wealth.'" In the end, he says, "We would no longer have capitalism as we know it."



graphic: Matt Wuerker

Corporate Cash Trumps Local Democracy

The lessons of Humboldt County's Measure T

Nature was generous to Northern California, especially Humboldt County: the rugged coastline where the Coho salmon and other sea life flourished; vast forests of firs, and giant redwoods; and a temperate climate with plentiful water. Unfortunately, this created the ideal breeding ground for corporate greed. Over a century of clear-cut logging, polluting paper mills, over-fishing and corporate political lock-down left Humboldt County ravaged and broke. Attempts by citizens to repair the damage to the environment and the local government were continually blocked by overwhelming amounts of corporate money thrown against their causes. In recent years, a series of particularly glaring examples of corporations controlling the political outcomes prompted the local Democratic and Green parties, organized labor and peace, justice and environmental groups to come together to craft a defense against further corruption of the democratic process.

The settlement underscored how powerful corporations do not merely exercise power—they are ruling us.

In spite of the corporate money used trying to defeat Measure T, it passed in 2006 by 55% of the vote. The measure barred non-local corporate money from the Humboldt County elections. The citizen's coalition realized that this would clash with the legal fiction of corporate personhood, especially the ludicrous Supreme Court rulings holding that corporations have the First Amendment right to Freedom of Speech, and that money is equivalent to speech. To address this problem, Measure T also removed corporate constitutional rights within the county. By doing so, the citizens were intentionally and strategically inviting a court challenge. They were prepared to defend their right to local democracy.

What happened next was a great disappointment. The Measure had been in effect for two years and seemed to be working: corporate money was absent from the Humboldt County elections for the first time. Then the Pacific Legal Foundation—a right-wing law firm funded by oil and tobacco corporations—sued the county on behalf of corporations' supposed rights to personhood and to financial participation in the democratic process. As the citizens began to discuss the possible options for defense of Measure T,, they were blind-sided by their County Board of Supervisors. These elected officials backed down in the face of a threatened lawsuit and repealed the measure that the people had passed just two years before.

"We were deeply disappointed," said Kaitlin Sopoci-Belknap, who serves as Executive Director of Democracy Unlimited of Humboldt County. "The citizen's initiative is the most direct expression of the people's will, and the settlement underscored how powerful corporations do not merely exercise power—they are ruling us."

But neither Democracy Unlimited nor the citizens of Humboldt gave up. They made the issues of corporate power and corporate personhood key issues during the most recent election cycle. Over one-half of all candidates for local office pledged to follow Measure T. Many candidates publicly declined contributions from companies that attempted to make political contributions to their campaigns. Over one-third of all candidates publicly pledged to oppose the doctrine of Corporate Personhood and to uphold the rights of citizens over those of corporations during their time in office. The majority of candidates taking the pledge were elected!

The lesson: it will take a dedicated group of agitated and organized citizens to build a movement powerful enough to make the promise of democracy a reality. Voters can still control the outcome of their elections by supporting candidates who refuse corporate money. The next step is to run candidates who share our core principles and values and will fight to protect our democracy from the power of corporate money .

For more information visit: http://www.DUHC.org
Jan Edwards is the creator of the "Tapestry of the Commons" which is online at www.thetapestryofthecommons.org. She is a member of the Redwood Coast Chapter of the AfD.

A Moment to Transform the Economy

By Chuck Collins

It is time for a mobilized citizenry to press Congress and the new Obama Administration to implement the unfinished business of a Main Street economic recovery plan. We have an unusual opportunity to transform the economy to ensure it works for everyone, not just the wealthy–and to be ecologically sustainable. But what we get will be a function of how well we are organized to take advantage of the moment.

For eight years, the Bush administration and the Federal Reserve ignored the housing bubble. They looked the other way as a huge, unregulated financial sector of hedge funds and derivative gamblers mushroomed. The growth of this speculative casino sector did nothing to boost the real Main Street economy.

In the real economy, real wages were stagnant but expenses like health care, gas and food soared. With no mega-profits to harvest from the real economy, Wall Street gambled for risky high returns, first in high-tech, then real estate, and now in commodities such as food and oil. In each case, Main Street paid for the greed.

A movement for a Main Street recovery is forming. It is led by grassroots organizations pressing for a moratorium on foreclosures and immediate aid to those most wounded by the economic downturn.

A Main Street recovery package could inject billions of dollars into long-delayed upgrades to our energy infrastructure, including mass transit and green technologies. This would stimulate good jobs anchored in local economies and reduce our dependency on foreign oil.

The federal government should also send aid to cash-strapped states and localities to address the fiscal squeeze caused by the credit crisis and declining tax revenues. Such a stimulus for the real economy would have immediate positive effects.

A fair plan to pay for the recovery must not soak Main Street for Wall Street's excesses. The bailouts and affiliated payments have raised the national debt ceiling to a whopping $11.3 trillion dollars, up from $5 trillion at the beginning of the Bush years. Instead of additional borrowing, Congress should develop a "pay as we go" plan. The lion's share of funds should come from the Wall Street gamblers and the wealthy CEOs who profited from the casino economy. These could include a modest securities tax, the closing of corporate tax loopholes, and targeted income taxes on households with incomes over $2 million.

In the end, we'll all be stuck paying for Wall Street's speculation binge. But a bailout that fails to require the Wall Street superrich to pay more would be yet another assault after the robbery.

This is a "movement moment." We can't wait for members of Congress or President Obama to do what needs to be done. We can't even wait for President Obama to call forth our untapped leadership abilities!

We and our neighbors are in economic distress. We are losing homes and savings. We have lost jobs or seen cutbacks. There is a tremendous amount of fear and anxiety–which could go toward individual solutions rather than rancor and scapegoating.

We need to talk with our neighbors and local media about the real causes of the economic collapse. We need to come together and organize around common security solutions. These include fighting cutbacks to local lifeline services and important institutions like libraries in order to maintain our community commonwealth and ability to help one another.

We can't let elites decide the future of the US and global economy. A progressive agenda includes massive investments in a "Green New Deal" and a closing down of the speculative casino economy that has put us at risk. The future is in our hands.

Chuck Collins is a senior scholar at the Institute for Policy Studies where he directs the Program on Inequality and the Common Good. For more information see www.extremeinequality.org as well as Sensible Plan for Recovery *and* Talking Points on the Economic Meltdown *at www.ips-dc.org/reports/ and* Ten Ways to Pay *at www.alternet.org/workplace/100223*

We have an unusual opportunity to transform the economy to ensure it works for everyone, not just the wealthy–and to be ecologically sustainable.

Corporate Nightmare in the Treasury

by Jim Tarbell

Nineteenth Century nightmares have come to life. Banker Alexander Hamilton's tenure as the first US Secretary of the Treasury scared American citizens into keeping bankers out of the Treasury for most of the next century. Politicians and the electorate both knew that bankers will empty the public treasury to feed their failing financial friends. Henry Paulson's shoveling of trillions of public dollars into the pockets of his Wall Street cohorts is the true-life rendition of this archetypal nightmare.

Hamilton, kin to New York wealth and protector of British financial interests, promoted money as power. He used it to rationalize the creation of the first US central bank, which he designated to be "under the guidance of individual interest not of public policy." He also started several private banks and promoted a connection with British financiers. He caused the most outrage by spending the public Treasury to buy "toxic" revolutionary war debts at full price from New York speculators, who had acquired them from war veterans at 15 cents on the dollar. This scheme prompted Senator William Maclay to portray New York speculators as "satanic henchmen in collusion with Hamilton to foster 'the most abandoned system of speculation ever broached in the country.'" Such dealings led the next President John Adams to opine that bankers are "swindlers and thieves." His successor Thomas Jefferson wrote that "banking establishments are more dangerous than standing armies, and that the principle of spending money to be paid by posterity under the name of funding is but swindling futurity on a large scale." Andrew Jackson fought a gigantic battle with the second US central bank, which he proclaimed "threatened 'the perpetuity of our republican institutions' by allowing an 'aristocracy [of] the wealthy and professional classes' unchecked power over 'the mass of the people.'"

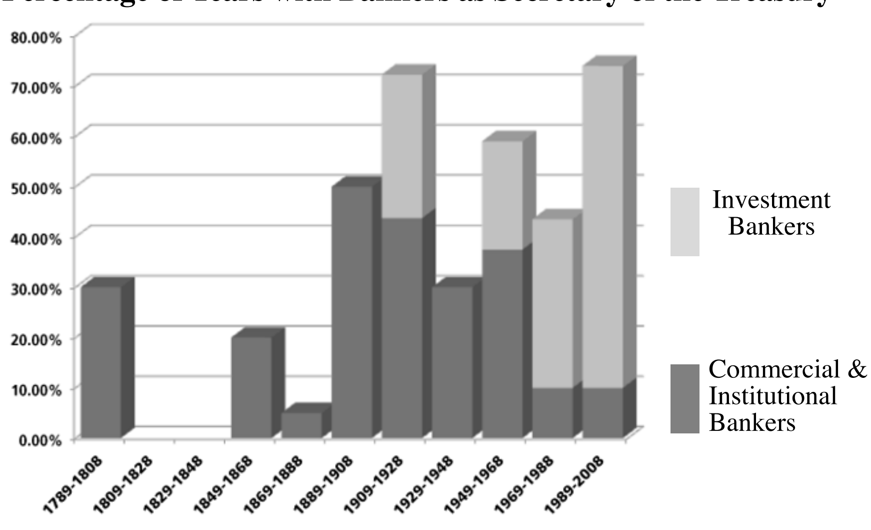
Bankers should never oversee the Treasury again.

For 100 years, through the terms of 40 Treasury Secretaries, only one banker headed the Treasury. The other thirty-nine guardians of our monetary system were political professionals, wary of bankers looting the public treasury.

Throughout the 1800s, people were both horrified and amazed at the ability of bankers and financiers to create money out of nothing. This included private banks that printed their own money and used fractional-reserve banking to create geometric growth of new money from a single new deposit. Financial panics in 1819 and 1837, caused when banks could not repay depositors, ruined the savings of millions of Americans. Popular outrage over such banking practices led the framers of the original 1849 California Constitution to prohibit the establishment of banks in California.

Bankers did not seize control of the Treasury until the robber barons in the late 1800s concentrated wealth in a few hands and big money completely took over our political system. As the accompanying chart shows, over the years since then, commercial, investment and institutional bankers controlled the Treasury over 50% of the time. In that era of big money politics, they established the Federal Reserve System which put the monetary system under the control of the private bankers. In the last 20 years bankers have run the Treasury over 70% of the time, surpassing the record set in the run-up to the Great Depression. Let's hope they have not ushered in another depression

Percentage of Years with Bankers as Secretary of the Treasury



In recent years, unregulated investment bankers have increasingly overseen the public Treasury. Now they are shoveling trillions of dollars out to their friends. As Naomi Klein wonders, "Has the Treasury partially nationalized the private banks…Or is it the other way around? Is it Treasury that has been partially privatized by Wall Street?" Goldman Sachs, the investment bank that has received millions of the bailout dollars, has also supplied most of the people running the bailout program. On top of that, the "Goldman Sach's Treasury" has outsourced the handling of much of the bailout to New York banks that have staffed the bailout process.

The founding fathers must be turning over in their graves. Bankers should never oversee the Treasury again. The Secretary of the Treasury should be an able citizen who can truly protect our public wealth and not allow corporate bankers to plunder our Treasury and ruin our monetary commons.

History Notes | *by William P. Meyers*

graphic: Peter Veres

History of Money

Archeologists have found evidence of trading by humans that predates civilization. By the time writing was invented, trade routes spanned Africa and Eurasia. Money can be defined as anything that facilitates trade by representing the value of trade goods. Which is why most money today is really just "virtual money."

Money evolved from the standardization of goods that were traded. A certain volume of rice or other grain, or weight of some metal, would become well-recognized as a standard of value.

The earliest money is often said to be metal coins, but standard ingots of metal long predated such coins. Bookkeeping and accounting also predated coins. Today we are inclined to think of coins or paper currency as being the exemplars of money, but that is a misleading prejudice. By keeping an account (on knotted ropes, clay tablets, or paper) of valuable items, in effect money was created if the account could be transferred. Despite the antiquity of such accounting, failure to understand the representational nature of money confused economic thinking in the past and confuses many people even today.

In the 1600s, colonial plantation owners and traders were familiar with transferable debt notes, which were, in effect, usable as money. But trade was often denominated in standard weights of commodities like tobacco or whiskey. Colonies, and later states, also experimented with issuing paper (fiat) money when metal (commodity) money was in short supply. During the Revolutionary War the phrase "Not Worth a Continental" came from the perceived lack of value of paper money issued by the rebel Congress.

The main problem with any form of money, whether gold, wampum, dollar bills, or electronic dollars, is maintaining its value in relation to goods and services. Too much gold from Peru and Mexico in the 1600s led to a drop in the value of gold in Europe, which caused inflation. A shortage of gold and silver led to deflation and economic recession in the United States in the late 1800s. Too much paper money can be printed by a desperate government, causing inflation.

But paper money became increasingly less important as the 20th century wore on. We now have very little paper money compared to the trade in goods and services that takes place in the US, or with foreign nations. Most money is in accounting systems, now kept in electronic form by computers. Today people can live in the United States without using any paper money. This has led to a new level of convenience. It has also made possible the pyramiding of money into a virtual economy through speculative investments including credit default swaps and collateralized debt obligations. This has not only thwarted many of the 20th century systems put in place to keep the money supply elastic enough to accommodate economic growth without severe inflation or deflation, but it has also allowed the economy to get totally out of control when regulators ignored the dangers inherent in these new forms of money. The housing bubble was the catalyst that brought down this highly unstable casino economy. We are now living with the severe recession that has resulted.

Most money is in accounting systems, now kept in electronic form by computers.

William P. Meyers is the author of The Santa Clara Blues: Corporate Personhood Versus Democracy. *He serves on the board of the California Center for Community Democracy.*

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$8 TRILLION AND COUNTING

For the Financial Rescue

by Ruth Caplan

That's what the Wall Street bail-out looked like at the end of 2008. Just over **$1 trillion** came from the US Treasury to be paid for by our tax dollars and the sale of Treasury notes to be repaid by future taxpayers. Close to **$7 trillion** came from the Federal Reserve, which created it out of thin air via electronic accounting transactions.

The US Treasury dole-outs include:

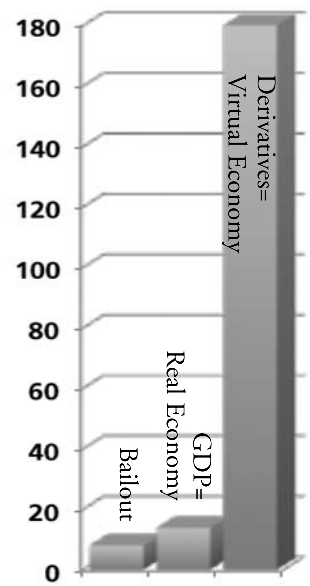
$700 billion for emergency bailouts. Most of the press has focused on TARP, the Troubled Assets Relief Program, whose funds comes from the Treasury. Of the first $350 billion: $315 billion was used to inject capital into banks and AIG; $20 billion went to unfreeze consumer credit markets; and in mid-December $17.4 billion was promised as emergency loans to GM and Chrysler, after Congress failed to reallocate funds for the rescue.

$267 billion went to the Spring 2008 stimulus, tax breaks, and Federal Reserve guarantees

Less noticed is the role of the Federal Reserve whose largesse includes:

- **$1.8 trillion** in purchases of short-term notes from corporations;
- **$540 billion** backing up money market funds;
- **$900 billion** for a Term Auction Facility so banks can borrow more money;
- **$291 billion** for bailing out Citigroup;
- **$600 billion** for the bailout of Fannie Mae and Freddie Mac, who were drawn into the fiasco of packaging subprime mortgages as AAA investments;
- **$1.55 trillion** for FDIC loan guarantees;
- **$8 trillion** committed so far to "rescue" the economy and continue business as usual.

Economy in Trillions of Dollars



It's time this country returns to a real economy, one that serves "we, the people" not the gamblers in the virtual economy.

$14 to $180 TRILLION

Size Of The Overall Economy

So how does the bailout compare to the size of the overall economy? That depends on what you count. First, there are the dollars in the real economy measured by GDP and highly dependent on shopping for "endless more."

- **$13.8 trillion** GDP in 2007 (market value of all goods and services)
- **$9.7 trillion** consumer spending (70% of GDP)
- **$822 billion** credit card debt in late 2008

Then there is the virtual economy made up of derivatives whose paper value is derived from real or virtual assets. Warren Buffett calls derivatives "financial weapons of mass destruction." Nobody knows for sure what they are worth, not Treasury Secretary Paulson, not Federal Reserve Chair Bernanke, not the Wall Street titans, but estimates run to:

- **$600 trillion** in derivatives worldwide (guess by the Washington Post)
- **$180 trillion** in derivatives in the US (estimate by Comptroller of the Currency) which include:
- **$33-55 trillion** in credit-default swaps. These provide a promise of private insurance if the underlying debt obligations fail. The insurer doesn't have to prove they have funds to cover the swap. We were told these threatened to bring down the global economy when AIG's swaps were called in.
- **$1.5 trillion** in securitization trusts. These are created by packaging low grade sub-prime and alt-A mortgages into high grade investments.

The need for the bailout has been questioned by none other than the Federal Reserve Bank of Minneapolis. Yet, their October report, *Facts and Myths about the Financial Crisis of 2008,* was ignored by the press and the Paulson/Bernanke/Geithner trio. Was the whole rationale for the bailout a ruse promoting what Naomi Klein (see page 3) calls disaster capitalism? It's time this country returns to a real economy, one that serves "we, the people" not the gamblers in the virtual economy. We must demand this of President Obama.