8. "I'm doing God's Work." Lloyd Blankfein, Chairman of Goldman Sachs said what too many Wall Street leaders truly believe: that they are so privileged and entitled that it seems as if the heavens bless their work. Why else are they earning hundreds of millions of dollars? Mr. Blankfein believes he is creating a virtuous circle by raising capital for corporations who create jobs and help our society prosper. But Goldman Sachs, JP Morgan Chase, Morgan Stanley and the rest of the apostles helped to bring the entire world economy to its knees. Does that mean God likes unemployment and widespread hunger?

9. "We're out of money." Who's we? Yes, the middle class is tapped out but the super-rich haven't even begun to pay their fair share for the mess they created. Yet the top 400 richest Americans alone are sitting on $1.27 trillion or so in wealth. Here's a dangerous thought. What if we had a very steeply progressive wealth/income tax that reduced the net worth of the super-rich to "only" about $100 million each? You wouldn't be suffering if you had $100 million kicking around. Now do the math: The 400 richest x $100 million each would equal $40 billion. That would leave about $1.23 trillion to help pay back the country for the Wall Street meltdown that we, our children and their children will be subsidizing.

10. "We are becoming a socialist economy." Somewhere between 68 and 78 percent of the US GDP is private sector activity, the highest among developed nations. And much of the government expenditures go to private contractors as well. But there's a kernel of truth in the socialist scare: What do you call a society that encourages the private accumulation of wealth without limit, and then when the super-wealthy get into serious trouble, we bail them out with taxpayer funds - largely from a declining middle-class? That's not free-enterprise. That's not socialism either. It's something new and it deserves to be called the billionaire bailout society.

super-rich? Former Federal Reserve Chairman, Paul Volker, recently blew the whistle on this fabrication:

"I hear about these wonderful innovations in the financial markets and they sure as hell need a lot of innovation. I can tell you of two—Credit Default Swaps and CDOs—which took us right to the brink of disaster: were they wonderful innovations that we want to create more of?

.... I wish that somebody would give me some shred of neutral evidence about the relationship between financial innovation recently and the growth of the economy, just one shred of information....

The most important financial innovation that I have seen in the past 20 years is the automatic teller machine... How many other innovations can you tell me of that have been as important to the individual?" ("What Has Financial Innovation Done for You?")

6. "To retain critically needed talent, Wall Street must be free to pay top salaries and bonuses." Where would they flee if they just got paid like normal people rather than like gods? The British are putting in place a 50 percent tax on bonuses. Also, compensation is much, much lower in the European Union. But the real lie is that we need such "talent" in the first place. That kind of "talent" just crashed our economy. That kind of "talent" is widely overpaid - no way should bond traders receive 10 to 100 times what is earned by the best neurosurgeons in the world. Something is really wrong and it starts with the lie of banking "talent."

7. "Overpaid American workers are the real cause of unemployment." The *New York Times* writers who concocted this argument didn't think they were lying. But this is one of the most preposterous ideas put forth during 2009. ("American Wages out of Balance" *New York Times* November 11, 2009) Edward Hadas, Martin Huchinson and Antony Currie informed us that:

"American manufacturing workers should take average real wage cuts of as much as 20 percent to get into global balance."

They don't mention that the average non-supervisory worker has already taken an 18 percent cut in real wages between 1973 and 2007. What's worse, they claim that if workers don't take these additional cuts, these "overpaid" working stiffs will be the cause of another Great Depression. They write:

"But if American wages get stuck above global market-clearing levels, as in the 1930s, the result could well be something approaching Depression-era levels of unemployment."

Not a word is mentioned about how Wall Street's gambling caused all of this unemployment and how the continued failure of Wall Street banks to lend is stalling job growth, right now.

1. "Government programs for low-income home buyers caused the financial crash." Wall Street defenders were quick to blame the Community Reinvestment Act, which urges banks to loan money in minority communities. In fact, almost none of the CRA loans are sub-prime and the vast majority are doing well, thank you. Blaming government programs deflects us from the real cause: Wall Street's incredibly reckless creation, marketing, selling and trading of "innovative" new securities that supposedly removed the risk from pools of risky debt. It didn't work. Wall Street, not the poor, crashed our economy.

2. "Income inequality is good for everyone." Lord Brian Griffiths, Vice-Chairman of Goldman Sachs at least had the nerve to say what so many of the super-rich really believe:

"We have to accept that inequality is a way of achieving greater opportunity and prosperity for all."

Unfortunately, the facts suggest otherwise. There is a high correlation between the mal-distribution of income and economic crashes. The last time our wealth and income distribution was as skewed as it is today was 1929, and that's not an accident. When too much money is in the hands of the few it runs out of real world investment and gravitates towards speculative investments. This inevitably creates asset bubbles and crashes. Record pay and bonuses on Wall Street and high unemployment are connected. (See *The Looting of America* Chapter 11).

3. "The rising number of billionaires is a sign of economic health." It's accepted media wisdom that the more billionaires the better. China with 130 billionaires now trails only the US, which has 359, according to *Forbes* magazine. But in our billionaire bailout society, the rising number of billionaires signals a collapsing middle class. Ponder this statistic: In 1970 the ratio of the compensation of the top 100 CEOs compared to the average production worker was 45 to 1. By 2006 it was an astounding 1,723 to one. Does that look healthy to you?

4. "Paying back TARP means banks are no longer on government welfare." Bank after bank is rushing to repay TARP funds during the worst economic year since 1937. They want to get out from under the Pay Czar (not that he's been sufficiently tough on the banks under his purview.) Banks that were insolvent only a few months ago now say they have the financial strength to refund tens of billions of dollars to the government. Where did all that money come from? Much of it comes from other government welfare programs for Wall Street (over $12 trillion worth) that aren't publicized. (See Nomi Prins's excellent accounting.) It may be the case that our banks are paying us back with our own money. Now that's financial innovation.

5. "Wall Street's freedom to innovate must be protected." Congressional leaders are tripping all over themselves to say new regulations will not discourage Wall Street innovations, something they claim is vital to our economy. Oh really? Do those "innovations" add anything useful to our country other than new casino games for the corporate, and military agendas of American empire, profits to capital placed above the general welfare, an unregulated free market, and corporate control of democratic institutions. In other words, leadership that embraces Conservative ideology.

So much for the past origins and present nature of our grave economic problems. What about the future? Adherence to Liberal principles dictates that we accomplish change through freely elected leaders who will then institute commercial regulations that promote the general welfare. Predictions, predictions, and proscriptions abound. An analysis of these must be left to another essay. In the meantime, we can at least deconstruct some of those that are clearly counterproductive.

MYTHS, HALF-TRUTHS, & FALLACIES:

-Just like a family household, the federal government cannot keep spending more than it takes in.

-Since we owe it to ourselves, deficits don't matter.

-Banking must be a profit-making venture like any other business

-Private business is always a more efficient provider of goods and services than government.

-The Federal Reserve is a branch of government.

-The federal government creates our money supply because the Constitution reserves to the government the sole right to "coin money."

-The logic of the Constitution mandates civil rights for corporations.

-The spending and giving of money is a form of speech under the 1st Amendment.

-The "commerce clause" of the Constitution reserves regulation of commerce to the states.

-Economics is a science.

-Public ownership of the Commons lacks motivation for its preservation.

-Free markets promote democracy.

-An individual's income is a measure of that individual's contribution to society.

-Free markets guarantee the production of goods and services the society values most.

Taxes are bad. Income inequality is not a problem. Government power should be directed toward protecting private property. Government should not perform functions that private enterprise can perform for a profit. Plutocracy is preferable to democracy. (This description neglects cultural conservatism which is not coherent with economic and political conservatism at many points.)

The *liberal* holds that what is good for everybody ought to be considered good by me. The income inequality curve needs to be flattened out to eliminate poverty and the excessive power of the ultra-rich. A progressive income tax is good. The market economy requires government regulation. Monopolies and the excessive power of large aggregations of capital are bad. Tax supported government programs are necessary for socially necessary functions that private enterprise finds unprofitable. Democracy is preferable to plutocracy. Progress toward these goals defines the word "progressive." Radical changes in the present system in order to accomplish liberal progressive goals must be avoided. (This description neglects humanitarian liberalism which is not coherent with economic and political liberalism at many points.)

The *radical* holds that presently operative social, power, and economic conditions are intolerable and must be changed by whatever means, no matter how painful.

The *pragmatist* holds that social and economic problems yield only to logical analysis and practically accomplishable incremental solutions. Pragmatists isolate problems like climate change, peak oil, financial meltdowns, population and demographics, and then propose policies and practical actions to solve these problems. The problems listed here are coherent with liberal ideology but there are just as many pragmatists working to advance the agendas of conservatives. Purely political pragmatists are seen as those who compromise either their conservative or liberal principles for political gain. Pragmatists do not find either radicalism or nihilism very pragmatic.

The *nihilist* holds that all attempts to mold the future are doomed for one reason or another. They vary in expression from passivity to random acts of violence.

Assuming that we are not interested in examining the present economic situation from either the Conservative or Nihilist perspective (and the Radical perspective only if all else fails) let's look at it from a Liberal Pragmatic viewpoint.

Clearly there are severe dysfunctions in the present economy: millions of long term unemployed job-seekers; a vast inventory of foreclosed homes; billions in negative balance of payments every month; rising federal deficit; declining essential government services such as education, public health, unemployment insurance, food stamps, and regulatory enforcement; childhood poverty; costly inadequate medical care; gross income inequality; dependence on foreign oil; and bloated military, intelligence, and homeland security costs. And that's a short list.

The historical origin of these seemingly intractable economic problems can be traced to our following the leadership of those politicians and capitalists in thrall to the financial, It's important to recognize that because of these factors, the study of economics—past, present, and future—can never be truly scientific. Nevertheless, the study of the past—even if the facts are only rough approximations—can yield useful generalizations that give names to various practices and the problems resulting from those practices that are useful in understanding the larger picture of what's going on in the present.

Human economic behavior is an extension of a universal *three-phased process* that operates throughout the animal kingdom. First comes **assessment of *satisfaction* of past and presently felt *need***. Next comes a ***strategy* for the satisfaction of *need*** based on this assessment. Next comes ***action* to satisfy *need*** based on this strategy.

This life cycle process can be practically instantaneous as when you trip but regain your balance before you fall down, or it can take years, decades, or generations as with projects to fly to the moon, develop atomic power, or stabilize population.

The economic manifestation of the metabolistic life-cycle process can be broken down into three fundamental phases: **production, distribution,** and **consumption**. In this model, strategy and action are combined because the normal productive enterprise combines them (although it needn't necessarily do so). Distribution is an interface between productive action and consumption's satisfaction of need which is needed in order to model how enterprise is typically ordered. **Advertising** in order to channel need, and **finance** in order to channel production strategies and enable the satisfaction of need, pervade all aspects of the production/consumption cycle.

There are three criteria for ***value*** determination: **labor, scarcity**, and **need satisfaction**. Those involved in *production* (particularly laborers) tend to view the amount of **labor** imparted to goods and services as the basis of their value. Those who make their living from *profits derived from distribution* tend to focus on the **law of supply and demand**. (Scarcity raises prices, which are for them, the measure of value). For the *consumer*, the **satisfaction of** their **felt needs** determines value by prioritizing buying decisions.

We can do nothing to change the past other than try to learn from it (or re-write history). We have a certain amount of control over our present personal economic situation but none whatsoever over the larger economy. We have the power to alter the future by our actions in the present (especially if we are a financier or a politician). That potential power focuses our attention there. What should those actions be?

The assessment of the present macro-economic condition—the point from which all future direction must originate—varies wildly depending ideological perspective, of which there are several. The principal ideologies in play today are: *conservatism, liberalism, radicalism, pragmatism, and nihilism.*

The *conservative* holds that whatever is good for me ought to be considered good by everyone else. The system in power is good as long as it continues to help me gain and keep wealth. Having a free market economy defines the meaning of the word "freedom."

time. Morally, one should not profit from another's need. But if the holder of excess wealth enables the poverty-stricken to survive and enables the entrepreneur to create new wealth, should he not be seen as providing a service to society? Thus, although the practice of usury is not necessary to money's function, it's become imbedded in the core of finance.

As to gambling, there have been moral proscriptions against wagering due to the playing of games of chance that can have disastrous real-life consequences for innocent bystanders while enriching the greedy with no real benefit to society. But if you think about it, why is the very acceptance of money as payment —which is, after all, an *abstract symbol* for real goods and services with an un-certain level of utility in being able to reclaim real goods and services in the future—not viewed as a kind of gambling?

We believe in the dollar because our experience shows us that it's necessary to have it in order to survive in our society. We have this experience because everyone shares this belief. Of course, it doesn't hurt that the government mandates that we must accept the official currency as our medium of exchange.

The questions raised by usury (charging of interest) and gambling (financial speculation) raise deep philosophical questions which—if we are to examine the uses to which money is put—we must now confront.

How do we know what we know and what should we believe of what we know? Our experience can be divided into two categories: our immediate subjective perception of our present personal reality in the context of our memories of our personal past and our imagination of our future, and our past, present, and future perception of our larger objective reality obtained through the use of symbols, principally language.

Our knowledge of money has intimate immediate reality when we pay for something at the store. Our knowledge of our bank balance a year ago can be determined accurately, but only if we consult our records.

Our objective knowledge of the economy as a whole can be determined in the present by following the daily news, in the past by consulting economist's graphs, statistics tables, and historical studies of past economic behavior. As to the future, projections can be made based on the likelihood of past behaviors continuing into the future, but these projections always turn out to be "wrong" because the future is essentially unknowable.

Why are economic projections unreliable? Economic statistics use the dollar as the unit of account, but the dollar—as we have seen—is a construct of the imagination and therefore is a rubber yardstick quite unlike the dependability of feet and inches. Further, economic statistics—Gross National Product, rate of inflation, employment—are all rough approximations. But the real wild card in the prediction of our economic future is the variability and volatility of the human decision-making process. The human factor of value judgment is qualitative rather quantitative and therefore includes emotion as an equal constituent to rational thought in our decisions.

In addition to the creation of the money supply, the Federal Reserve is charged with being the banking system's bank of last resort, preventing inflation or deflation by manipulating the interest rate, promoting full employment, and various other operations in the financial markets.

Is it a surprise to you that although the head of the Federal Reserve and the heads of its twelve constituent regional banks must be approved by the Senate (and the Secretary of the Treasury must sit on its board), the **Federal Reserve is actually owned by privately-owned banks?**

Now, you probably won't be able to remember this, but this is how our money—the dollar (by the trillions)—actually gets created. The Fed and the Treasury co-create money when the Treasury issues bonds that the Fed "buys" by entering a debt assumed by the Treasury on its books. The Fed then sells these bonds on the open market to investors through the private banks. Money in the general economy is not created until the private banks loan it out. Over 95% of the money supply is created in this way.

At this point, several questions must occur to you. "Why must the money creation process be so convoluted?" "Who makes the Fed's decisions and by what process?"

The money creation process is convoluted in order to hide the fact that ***fiat*** **currency**—money backed only by a nation's taxpayers—is created out of *thin air*. The actual process is cloaked in as much secrecy as possible in order to hide who *benefits*, who gets the *blame* if things go wrong, and to *avoid sending unwanted signals to speculators* on the financial markets.

The creation of debt-based fiat money is not the only way that money is created these days. Deregulation has allowed "shadow banking" to emerge. How does this work? Any time debt is created that is not the lending out of pre-existing money or assets, new money is created. Investment banks and hedge funds do this when they create credit default swaps, and collateralized debt obligations backed by derivatives. Get it? No? That's why it's called shadow banking. Trillions of dollars of debt is created that companies have on their books based on confidence that the fictitious money created will never have to be spent. Also, there are alternate forms of money, both in being and proposed, that we will look into in detail later on.

Now let's look—as was promised—at those characteristics of money that are not essential to its function but are unavoidable possibilities in the course of its use—usury and gambling.

In societies where having money as a medium of exchange is essential to survival there will always be some who won't have enough and others who will want more of it to finance their ambitions. When the goldsmiths began to meet these needs, they recognized that those most in need presented the greatest risk of default. Risk of borrower's default justified contracts calling for repayment in excess of the amount loaned in spite of the religious proscription against usury—the practice of charging interest—in force at that

How, then, does money—since its true nature in so ephemeral—come into existence?

Originally it consisted of any commodity or artifact that was countable, convenient, difficult to counterfeit, and inspired confidence in its enduring value. Eventually gold and silver coins won out.

It's important to realize that the gold by itself didn't create the value. Its value as a medium of exchange was only created when combined with being molded into coins of standard weight stamped with the image of the reigning monarch. Only then did it meet all the conditions required to inspire confidence.

The next step in money's evolution was for gold merchants to offer secure gold coin storage, for which the owner was given a paper receipt. These receipts could then be traded in place of the actual gold.

When the goldsmiths realized that people were actually trading these pieces of paper rather than coming in to reclaim their actual gold, they got the bright idea that they could safely lend out a certain fraction of their client's gold at interest as long as people had confidence that they could reclaim their actual gold, if they needed to.

Soon there were more receipts floating around than there was actual gold. The goldsmiths now could create new money out of thin air—or people's confidence in the goldsmith's integrity, if you wish—so long as they had loan customers willing to go into debt.

Let's stop a minute to consider some important historical facts. One, **money is an *invention***. Two, the **nature of money has *evolved***. Three, the **value of money depends on *confidence***. Four, **money** now *not only* is previously existent, but **consists of *debt***, the reality of which is determined by the borrower's ability to repay it with interest in the future.

Finally, the scale of industrial production over-ran the ability of gold to provide enough money to represent the vastly increased volume of goods and services. Further, the gold standard meant that the vagaries of international trade always presented a challenge to each nation's gold reserves.

The modern banking system evolved from the practices of the goldsmiths. National governments took over from goldsmiths the right to coin money and either establish national banks or charter private ones. Making this choice is where the monetary system starts to get really complicated

From America's very beginnings, a debate raged about whether the power to create money should reside with the government where it would be under democratic control but subject to the whims of corrupt politicians, or under the control of private banks that would direct investment in the interests of wealthy investors rather than the general welfare. This conflict was finessed in 1913 with the creation of the Federal Reserve.

MONEY EXPLAINED—10/5/11

Just to start to understand the economic mess we're in, you've got to understand the true nature of *money*.

Money is *not* a thing. The essence of its value does *not* reside in gold or pieces of paper.

Money exists because people need a *medium of exchange* more convenient than *barter*.

In order to function as a *medium of exchange*, it must be based on a *unit of account*, and function as a *medium of exchange.*

What do medium of exchange, unit of account, and store of value come down to? They mean that you know it's money if you can *count* it, you can *keep* it, and you can *spend* it.

There is universal agreement that these are the three essential characteristics of money.

Before moving on, let's ask whether money actually fulfills these functions. It becomes apparent that money cannot function as a medium of exchange *at the same time* that it functions as a store of value. Money saved goes out of existence as a medium of exchange until it is actually spent. Once spent, it disappears as a store of value to the saver. It's important that money in long term savings be *invested* (loaned) so that it re-enters the exchange stream.

Further, the efficacy of money as a medium of exchange is also dependant on the number of exchanges made in any given time-frame. The faster the *velocity*, the less money needed to accomplish the same volume of exchange.

And finally, it's important to note that money as an abstract unit of account will vary in its relation to real goods and services with inflation or deflation.

But there are two other *non-essential*, but *universal*, characteristics of money that come with its use: *gambling* and *usury*.

Let's review: Money exists because we need a *medium of exchange*. In order to function it must have a *unit of account*, and be able to *hold its value* when kept.

Also, it's possible to use money for *gambling* or *speculation* and *usury* or *charging interest*. This is where the trouble starts. Why? Because **money is used to make money off of money, not for the exchange of real goods and services**. We'll examine the *uses* to which money is put after we examine how it's *created*.

The value of money ultimately depends on the confidence of the people in its stability. It's an invented, shared story, similar to a work of the literary imagination except that it's a story that is universally believed to be true.