Why Paulson Blundered

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Let us be very fair about U.S. Treasury Secretary Paulson. His chief fault is that he was virtually a certifiable "Baby Boomer," who came into government circles during the administration of Richard Nixon, but soon left, in a gesture of prudence, to assume a safer career-opportunity in the so-called "financial community." That is to emphasize, that he, like most Wall Street professionals of his age and younger, has had virtually no experience with a real economy. He is, essentially, like the rest of the Wall Street crowd, a gambler, not an economist.

In fact, the beliefs of the entire Wall Street and London financial community with whose defective, British ideology he and many others, especially the Baby-Boomers, are infected, are both insane, and also, implicitly unlawful under the specifications of the original intention of the U.S. Federal Constitution. Thus, notables such as Paulson and Bernanke "just don't get it;" they are, as Alice said, "just a pack of cards," or, if you prefer to say it, "just monopoly-money bureaucrats"

To grasp the tragic significance of Secretary Paulson's problems, glance back to this past June, when Senator Barack Obama had just returned to the U.S.A. from a junket through some places in Southwest Asia and Europe. Recall the assembling of twenty-one presumed economics experts who met with Senator Obama, shortly after the Senator's retreat from Europe, to discuss economic policy here. When the Senator left the room after a short meeting with those assembled, they, Democrats and Republicans alike, looked at one another with a shared feeling of dismay. Was this the man projected to become the next President of the United States? What a horrid thought! A shudder must have passed among those still assembled in that room.

However, only a handful among the twenty-one were actually competent in the subject of national economy; but they were sane, intelligent, and horrified. So, was the Dana Milbank who spelled out some of his concerns on page three of the ***Washington Post*** of July 30th.

However, a slight correction in that account is needed. While those who witnessed the exchange with Senator Obama were sane, most were not actually competent specialists in the field of national economy as such. In the entire U.S. today, there are, otherwise, about a half-dozen competent economists (as distinct from leading bankers generally), at most, but even fewer than that if you do not include me in that number.

There are, fortunately, also some competent bankers, including some in the Federal Reserve System. Therefore, to assemble such an oversized group of twenty-one as that rallied to meet with Obama for an hour or so, is a waste of time, all in itself. Four or five persons, less than the five fingers on my hand, might have gathered from nation-wide locations, for an actually useful, day-long, or weekend meeting on the subject of educating an intellectually unqualified candidate on the subject of initiating desperately needed U.S. reforms of economic policy. As Obama has shown, more and more obviously, throughout the campaign so far, he is a man of impulses, but not one prepared to deliberate serious ideas.

Yet, even under the best choice of setting, for them to attempt to illuminate Senator Obama would have been an experience like lecturing a wooden dummy. Obama just doesn't get it, and probably never will. There were already too many dummies in the field of making of economic policy, even before Obama turned up. Consider, for example, many among the members of the Congress and also today's so-called financial specialists.

I do not wish to immerse us in further speculation on the subject of Senator Obama's mental health here. I merely emphasize that as being the key to understanding the most essential features of the utter emotional and intellectual incompetence of "Buppie-and-Boomer" choice, Senator Obama, to serve as a Presidential candidate of the Democratic Party, let alone actually become the public menace he would be as President of these United States. In economics, Obama is a catastrophe, who performs as a living caricature of the common worst delusions of his core, "Buppie-and-Boomer" constituency. Unfortunately, the incompetence in economics, often tending toward the rabid, is one which he shares with most among that constituency.

In this respect, Secretary Paulson's problem with economics, and Senator Obama's are clearly not the same; Paulson's opinions have been misguided, but are intelligible. Obama's view of the subject is largely spun-out-of-orbit, emotional, and also delusional.

As to Paulson himself, his problem is the ignorance typical of a skilled Wall Street gambler, who is not interested in the principles of that American System of national economy. He typifies leading financial specialists from among a generation which generally lacks all knowledge of those principles of that formerly successful American System of political-economy which has been essentially shut down since the wrecking of all semblance of sanity about economy during the 1971–1981 interval under Presidents Nixon, Ford, and Carter, not to speak of the ruinous three terms of two Bushes. Paulson is therefore to be judged fairly as a typical victim of the popularity of the monetarist delusions adopted as habits among most of the economists in the fields of banking and finance today. This state of affairs is especially notable among the Wall Street variety: their ignorance of experience under what was once sound national banking principles, is awesome, menacing, and even gruesome.

To understand, and correct the effects of Secretary Paulson's confusion, the following leading facts of post-1945 U.S. economic history must be taken into account.

Under these conditions, at a time when I am one of a mere handful of competent U.S. specialists in matters of national economy, it is important to make the relevance of the expertise of myself and my handful of actual peers clear to the relevant officials and ordinary citizens of the U.S. today.

When We Went Wrong

Despite President Harry Truman's extensive sabotage of the successful system created by President Franklin Roosevelt, and despite what proved to be the disastrous Arthur Burns, the essentials of the American "fair trade" policies under Presidents Dwight Eisenhower and John F. Kennedy, carried our republic's economy safely (despite Burns' terrible, and habituated blunders) until the time of the assassination of President Kennedy. Had President Lyndon Johnson not sensed the barrels of three rifles aimed at the back of his neck, he would probably not have permitted the fraud of the 1964 "Gulf of Tonkin" resolution, and the economy would have remained more or less sound.

My own first forecast as an economist had been made, back then, during the second half of the 1950s, in Summer 1956, when I diagnosed the current practices, including reckless credit and dealership accounting policies, of the automobile and other hard goods industries, as threatening the breakout of the worst post-war recession to date, to break out about February 1957, a recession which arrived on schedule.

This outbreak of the 1957 recession, on schedule, led to my later, long-term forecast, composed during 1958–60, in which I warned that, under a continuation of the trend established under Arthur Burns' influence during the 1950s, we must expect the risk of a pattern to emerge during the late 1960s, in which waves of recession would lead toward the threat of a severe crisis by about the beginning of the 1970s. (Very few so-called economists actually deal with long-term physical-capital factors. Most tend, instead, toward the equivalent of the gypsy art of tea-leaf reading.)

I have nothing in common with typical academic bunglers or Wall Street crystal-ball gazers; I did not claim that this, or that was inevitable, but what would become almost certain, on account of medium- to long-term physical-capital factors, *unless* the pattern set by Burns *et al.* was reversed during no later than the course of the mid-1960s.

As in every Classical tragedy, there is almost always an hypothetical alternative to doom; the danger comes not from some individual figure, but from the fact that the culture of that society or nation does not permit it to make the available decisions by which the relevant catastrophe might have been avoided. Only the exceptional leader, who not only goes against, but kicks the pricks of current conventions, has ever rescued a culture as a whole from what had become its built-in plunge toward self-inflicted doom, as has been, in fact, the case of the U.S.A. since the day of President Kennedy's assassination.

Not only did I maintain that long-range forecast over the 1959–1971 interval, and beyond. I emphasized the nearness of the crisis in papers circulated at several points during the 1965–1971 interval. I was the only economist on visible public record who maintained that warning of what the Nixon Administration actually did in 1971; all others had insisted that the "built-in stabilizers" would assuredly prevent such an event. I also presented the alternative. They did not choose the available alternative, and thus, through repeated such follies on my opponents' parts, we are in the mess we are in, globally, today.

Hence, I was the only economist who had actually forecast the likelihood of what President Nixon did, under the guidance of the wretched Burns and George Shultz, in 1971–72. For this reason, I did the relevant thing that any intelligent patriot would have done: I accused the community of academic economists, publicly and repeatedly, of being "quackademics," and I was entirely correct in everything I said on that account, as subsequent developments have shown indelibly. They did not like my wisdom, but my celebrated debate with those economists' selected champion, leading Keynesian economist Abba Lerner, at Queens College, in late 1971, settled the issue as to matter of fact. Our nation is still suffering from the effects of the stubborn folly of economists who, mostly, have done nothing to correct their tragically foolish, habituated ways since, even until today.

The 1971 breakup of the Bretton Woods fixed--exchange-rate system has produced an unbroken secular downward trend in the physical economy of North America and western and central Europe. President Nixon's foolish decision of 1971 was, next, complicated by the British-Saudi oil-price swindle of 1973, the swindle which created the Anglo-Dutch "spot market" which has been a major factor in BAE's role in the wrecking and ruin of the trans-Atlantic economy—and the U.S. dollar—since that time to the present day.

The trend in that direction was already in motion before 1971. President Kennedy's battle with Wall Street and his own Secretary of Defense, over keeping the U.S.A. and our industrialized national economy out of foolish wars, is of crucial significance. There was nothing inevitable in the folly of going into that war. But, once the President Kennedy who had heeded the counsel of Generals of the Armies MacArthur and Eisenhower, was murdered, accountant Robert McNamara's dubious rantings took over.

It was the changes in economic policy-direction imposed after President Kennedy had been murdered, which made possible the ruin of the U.S. economy which followed. The ruinous effects of the fraudulent launching of prolonged (1964–1975) warfare in Indo-China, were but one significantly contributing factor in triggering the collapse which erupted under Presidents Nixon, Ford, and Carter. The budgetary process of 1967–1968 signaled the beginning of a net downward turn in investment in the nation's basic economic infrastructure and scientific development. The British policy under Prime Minister Harold Wilson, was a crucially significant international factor in worsening the economic situation in the U.S.A., as we may see echoed in the event of March 1, 1968.

There were chiefly two factors which ruined us over the course of 1964–68; the Indo-China war and the proto-fascist character of that existentialist mob of youthful, anarchist, neo-Malthusian rabble run wild-in-the-streets in the U.S.A. and Europe during Summer-Autumn 1968 and beyond.

The worst of several such blows was the eruption of the anarcho-syndicalist (e.g., synarchist) fraction of the 68er upsurge in both the Americas and Europe. The hatred against farmers, "blue-collar" families, and science-and-technology, which that synarchist (i.e., proto-fascist, neo-Malthusian) element among the rioting 68ers produced, had the immediate effect of shattering the U.S. Democratic Party's ranks of support to such a degree that the already deeply discredited Richard Nixon could become President. Then, in that way, the disaster which has gripped our nation continuously since 1968, struck.

It was at about that time that Paulson came, then little observed, onto what would become his place on the political stage.

What's Wrong with Paulson?

The crucial point to be emphasized here, is that that bit of post-World War II U.S. history, is the key to the lack of competence of such as Secretary Paulson, the lack of the competence among the presently reigning Baby-Boomer generation's so-called elite, the failure to recognize the urgency of installing a two-tier credit policy during the remaining very short and dwindling time available to save the U.S. economy from a presently onrushing, global, hyper-inflationary general breakdown-crisis. If the name of Secretary Paulson is to come to occupy a reputable page in the history of our United States, he, like the Federal Reserve chieftains, must listen carefully to the few remaining individuals who, as remnants of the past times when the U.S. was still the world's greatest, most successful agro-industrial nation, are still competent to advise government on the urgent wisdom of a traditionally American (i.e., Hamiltonian), two-credit, protectionist form of credit-system.

I emphasize again, that I suspect that there are, if I am included, presently approximately a half-dozen national-economists active in the U.S.A., which have the competence to design the needed emergency policies to rescue our U.S.A. from sliding, very soon, into the abyss of a general breakdown-crisis. So, for this case, our problem is a professional one: we have many opinionated medicine-men, and all too many lawyers, but only a tiny handful of qualified surgeons. To which set of hands would you consign the fate of your family and its community? An orbiting foreign body like swindler George Soros, perhaps, or those among our native "economic hit-men," such as the George Shultz and Felix Rohatyn, who played a key role in installing and maintaining the Nazi-modeled Pinochet in Chile and the Hitler-like, early 1970s wave of mass-murder in the Southern Cone?

Such are the dangers of consigning the power to make law in our republic to people who have no comprehension of the elementary, Hamiltonian principles of our constitutional republican system of economy; but, who seek to re-colonize us by putting us back into the status of a virtual, mere British colony, of the type which is known to all competent economists as a "free trade" system. There lies the essence of the incompetence shown by the misguided Secretary Paulson and so many of his peers.

Our American System

The included, crucial distinctions of the American constitutional system of political-economy from virtually all European models, especially from inherently flawed, European parliamentary systems of government, is that European systems, especially the Anglo-Dutch Liberal models, relegate control over the uttering of money to central banking functions; whereas, the U.S. Federal Constitution prescribes a monopoly of creation of lawful currency by the Federal government, a monopoly exerted by the Federal Executive with the relevant consent of the U.S. Congress.

It is ignorance of that matter of ABCs of our constitutional system which played a leading part in the foolishness of Ben Bernanke and others in their potentially fatal error of opposing my insistence on immediate action to protect the U.S.A. by adopting a two-tier credit system.

What the Federal system under Former Chairman Greenspan and Bernanke has done, is the viciously anti-constitutional practice of running the U.S. economy as an imitation of the Bank of England, in particular and the Anglo-Dutch Liberal system of international usury in general.

The constitutional form of the American System, as the opponent of the Anglo-Dutch Liberal monetarist systems of Europe, had its root in developments sprung from that A.D.

1439 great ecumenical Council of Florence which distinguishes the establishment of modern European civilization as distinct from earlier, imperial forms of rule.

The first practiced realization of the principles of economy introduced by Cardinal Nicholas of Cusa and others was established by the great reforms of France's Louis XI and the comparable reforms in England under Louis XI's admirer Henry VII. It was the impact of these reforms by Louis and Henry which informed the pre-1688/89 economic and related policies of the Massachusetts Bay Colony of the Winthrops and Mathers.

It was those same policies of the North American colonists which came to the fore in the American patriotic resistance to the February 1763 establishment of the British empire as a private enterprise of the British East India Company. The elements of the earlier developments of sound principles of economy in the American English colonies had brought about what became the crystallization of an American System of political-economy which was the antithesis of the imperial tyranny established as European Anglo-Dutch Liberalism. The summation of this specifically American System of political-economy was crafted by the U.S.A.'s first Secretary of the Treasury Alexander Hamilton. Hamilton largely followed the guidelines of physical-economic principle which had been established by the great universal genius Gottfried Leibniz.

The silly, utterly simplistic explanation usually offered on the subject of the differences between the American and British Liberal systems, focusses on the diversionary issue of the British monarchy. Any competent insight into the actual differences recognizes that it was not the British population which invented British imperialism, but, rather an Anglo-Dutch Liberal financier interest, composed of the followers of the Venetian Paolo Sarpi, which had taken over and occupied the English and British monarchies in the imperial interest of what emerged in the February 1763 Peace of Paris, as the private British East India Company. Under that Anglo-Dutch Liberal financier imperialism, large parts of the population of the British Isles tended to be degraded to the status of what Jonathan Swift caricatured as the Yahoos of ***Gulliver's Travels***.

What had occurred in Europe to bring about what is known to the well-informed as the British world empire of today is, from the standpoint of the competent historian, the shift, begun by Paolo Sarpi, of the center of power of medieval Venetian financier-oligarchical practices from a traditional, medieval headquarters at the head of the Adriatic, to the maritime coasts and islands of trans-Atlantic northern Europe. The two monarchies, of Britain and the Netherlands, are essentially the present chief parking-places of the chosen political capitals embodied in the Anglo-Dutch Liberal financier-oligarchical powers.

Thus, the interest of British imperialism, since its establishment by the February 1763 Peace of Paris, is not a nation-state interest, but the slime-mold-like form of financier-oligarchical imperial interest established as a syndicate by the reforms of the chief founder of modern Liberalism, Paolo Sarpi.

Hence, the intrinsic absurdity of the tendency of the ignorant and miseducated to regard the political-economic dogma of the British Haileybury School (and also of Karl Marx) as an expression of national economy. The American System is an outgrowth of those emigrants who settled North America in the intention of bring the best of European culture to a safer place of habitation on the other side of the Atlantic Ocean. Thus, the roots of the American System of political-economy has been chiefly an English-language expression of the best of the culture of modern Europe, a truly humane culture to which we would hope the residents of the British Isles, including the present descendants of our own English, Scottish, Welsh, and Irish ancestors, would be at last freed of the shackles of the Liberal mind.

Essentially, our republic's constitutional economic policies coincide with those of the Gottfried Leibniz who exposed the evil inherent in the doctrines of the British (and brutish) slave-trade organizer John Locke. The design of our constitutional policy was therefore chiefly conditioned by our founders' recognition that it was the Liberal system of financier tyranny from which we must defend our republic. Thus, our Constitution took away the authority of the Anglo-Dutch financier tyranny to exert control over our currency and our sovereign affairs in general.

Thus we react with an arousal of patriotic alarm at signs of the British empire's financial control over the present process of national elections in the U.S.A. It is on this specific point that we are justly inclined to cage up the Wall Street gang which has been, in effect, the principle source of recent anti-constitutional treason in our economic and other affairs.

It was this defense of our republic, a defense which is the duty of every one of our citizens who would wish to be considered a patriot, to respond to the present world crisis of all humanity by becoming ourselves once more, as we did under President Abraham Lincoln, without whom the slaves would probably never have been freed, and as Franklin Roosevelt freed the Americans of his time from the bondage of London's Wall Street—for which neither London nor its lackeys have ever forgiven Franklin Roosevelt, to the present day.

The Needed System

The incompetents, including Secretary Paulson, who are complicit in blocking the urgently needed establishment of a two-tier credit system, have thus demonstrated that they, so far, have not the slightest comprehension of the mandatory action implicitly demanded as our constitutional reaction to the present wave of hyperinflation which has taken over the U.S. economy, as also the world system. The world as a whole, including nations such as China and Russia, as also all of the nations of western and central Europe is now in the grip of a global wave of accelerating hyperinflation whose only likeness in modern history since the 1648 Peace of Westphalia, is the London-imposed Weimar Germany hyperinflation of 1923, as that hyperinflation which has been replicated on a global scale.

Then, in 1923, Germany had no chance. The Versailles powers had imposed a debt which Germany could never have paid, and thus obliged Weimar Germany to do to itself what the U.S.A. is now doing to itself, doing this out of sheer silliness, under the wave of insanity which has continued to grip the leadership of both the essentially "do-nothing" U.S. Congress and the stubborn silliness of the Executive, since I warned of the immediate breakout of such a hyperinflationary wave in my July 25, 2007 international web-cast.

Unlike Weimar Germany of 1923, we of the United States have the constitutional, political power, in our government, to break the back of this inflationary crisis now. Although the three measures which I specified in the Summer of 2007 have been blocked by very silly people in the high places within the Congress and the Administration, those policies are key to any successful halting of the present plunge of the U.S. economy into an early arrival at the virtual gates of Hell, possibly even earlier than the November general election.

First: We must recognize the reality of a national emergency in the form of an accelerating, hyper-inflationary, general breakdown-crisis of the U.S. banking and monetary system. This trend must be halted by emergency action in bankruptcy reorganization: All present plans for financial bail-out of Fannie Mae and Freddie Mac must be cancelled under threat of impeachment or similar action against any U.S. officials caught in complicity with such an attempted, inherently fraudulent bail-out scheme for absolutely wrecking the U.S.A. financially in favor of London and Wall Street predators.

Federal reorganization of the financial system in bankruptcy must occur immediately. We, as government, must be committed to pay what must be paid to maintain the general welfare of the population and of functions of Federal, state, and local government, and to freeze what can not be paid currently without damaging the payments which are of fundamental strategic and human interest.

Many people have engaged in what are in fact, tolerated swindles, as typified by the disgusting matter of "golden parachutes," while essential human interests of people who have earned their actual right to income are looted to pay for "golden parachutes" and comparable swindles. Those who managed the economy are those who are chiefly responsible for the failure which their reign induced; they should not claim too loudly what they did not actually earn by human standards for the proper meaning of "earning." The word of the day is "big-time financial swindlers"

Second: We must restore real (i.e., physical) growth in essential goods and services as measured per capita and per square kilometer.

Third: We must use emphasis on science-driven, high-energy-flux density progress in basic economic infrastructure, such as power, mass transportation, water management, and land and forest reclamation, as stimulants to recreating the physical-economic productive capabilities of our labor-force, which our republic has largely lost under the implicitly pro-Malthusian dogmas imposed since 1977.

Fourth: We must establish a new virtual "Bretton Woods" system by an immediate agreement presented by the government of the U.S.A. to leading nations Russia, China, and India, establishing a new fixed-exchange-rate system designed for the participation and benefit of currently sovereign nations and those which are still to be freed from poorly concealed expressions of British imperialist subjugation by established Anglo-Dutch Liberal-created international institutions.

This action by those four powers must be intended to open the doors of nations generally to participate as fully sovereigns in the new system.

Since, as the case of China illustrates the point, the greatest amount of outstanding international debt and related accumulations, is currently denominated, still, in U.S. dollars, the possibility of avoiding a general breakdown-crisis of the planet as a whole, -depends upon fixing the dollar at a recently fixed current valuation, perhaps a value sometime prior to August 1, 2007. Without such a measure, the situation of the world at large would tend to be hopeless, and a new, planet-wide new dark age would be virtually inevitable.

Such an agreement among that "big four" would automatically open the gates for the immediate full participation of other sovereign nations as true sovereigns. Without this initiating role by the U.S.A., there is no approach by any combination of other nations which could bring the presently soaring world crisis under voluntary control.

The intention of such a precisely defined form of New Bretton Woods system is the only existing option for avoiding the plunge of the planet as a whole into a prolonged, very deep new dark age.

In Summary

The entire monetary-financial system of the Federal Reserve System is now hopelessly bankrupt in its present form and in terms of its presently pretended assets. This situation has been created by methods, as, notably, under the term of Chairman Alan Greenspan, which have been fraudulent in the respect of promoting leveraged fictitious assets based in purely hyper-inflationary forms of private financial speculation, into the fraudulently elevated status of claimed capital assets, as by so-called “hedge funds.”

The entire Federal Reserve System, as a chartered entity, must be now placed into receivership in bankruptcy by the Federal Government. In this connection, the Preamble of the U.S. Federal Constitution is the most relevant authority in U.S. Constitutional law. This is not a matter of lawyers, but of the constitutional intention to which all other law of the republic must be subordinate.

The failure to act according to this reading of the authority of the U.S. Constitution would plunge the nation into a form of chaos in which the nation itself would cease to exist. Therefore, the issue is not formal, but existential, in the same sense as a lawful declaration of war against a deadly enemy.

We have the precedent of President Franklin D. Roosevelt as the most proximate instance of the actions mandated by a similar state of threat to the continued existence of the republic. We put the national system into receivership in bankruptcy under the Federal government, resolved to bring about, first and foremost, the continued existence and recovery of the U.S.A., whatever is required to bring this about, and to bring the necessary process of reorganization to an honorable and durable form of solution in its end-result.

The three steps of emergency action which I have presented to representatives in the U.S. Congress, and other relevant places, must be taken now:

A four percent interest-rate, with specified types of exceptions must be put in force now as protection of the existence and functioning of the presently immediately endangered, chartered, Federal and state regular banking institutions of the United States. The primary depositors and the existence of the banks must be protected, and other claims considered in due course as means exist for this purpose.

The Federal rate is intended to maintain levels of assets in the banks, while Federal credit is uttered, against those assets remaining in banks, for issue of credit in matters of the general welfare and investments in capital improvements in basic economic infrastructure and promotion of manufacturing and agriculture.

The credit of the United States and other nations must be defended through the mechanisms of a new international, fixed-exchange-rate credit system launched by a U.S. initiative for such cooperation among a group of nations brought together as a new form of “Bretton Woods System” created to stabilize the legitimately essential obligations of the system, while providing mechanisms of long-term credit for developmental projects in physical-capital improvements in the common interests of mankind.

To that end, we must recognize the fact of the follies of the IMF system and its participating nations since the folly of August 15, 1971.

President Franklin Roosevelt was right, and, probably, the continued existence of your nation and its people depend upon recognizing that fact, now as when only Franklin Roosevelt's role provided the margin by which the world was saved from Hitler's tyranny, ultimately, if not in time for many.