

# Keynesian Economics: An Essay On Political Tension

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## Keynesian Economics: An Essay On Political Tension

by John King

*"The true irony is that political progressives are so indentured to Keynesian theories of demand stimulus that they have eagerly turned the nation's central bank over to Wall Street lock, stock, and barrel." — David A. Stockman,*

*The Great Deformation: The Corruption of Capitalism in America*

*"A change in mindset will be essential if we are to change the way globalization is managed. Such a change is already underway.*

*We can restructure globalization so that those both in the developing and developed world ...can all benefit—though*

*there are special interests that will lose out." — Joseph E Stiglitz. Making Globalization Work*

A Review

## Nationalism v. Globalism

I have been asked to review Stockman's work, "*The Great Deformation*" but there are good reviews available on Amazon which are comprehensive and accurate in that regard. I would rather use Stockman's work to offer a perspective on the ongoing feud between two economic theories, Keynesian "demand-side" economics compared to "supply-side economics," and consequently how diverging political parties collide. I supplement the work of Professor Joseph Stiglitz, who is liberal, "*Making Globalization Work*."

In the conservative camp is a traditionally understood national interest in such fiscal disciplinary safeguards as:

- Cutting expenditures
- Balancing the budget
- Lowering taxes
- Leaning toward supply-side (as opposed to demand-side) economics, trickle down economics.
- Honoring the gold standard
- Exercising a hands-off approach to the market as self-adjusting.

While liberalism has moved left toward

- Monetizing the federal debt
- Raising taxes on the wealthy
- Embracing the Keynesian construct of demand-side economics in the belief that economic depression was the result of a lack of available M1, money in circulation, for consumers to consume (President Carter's 50 dollar tax rebate for each American).
- The importance of a united global effort on behalf of underdeveloped economies (merging markets and developing democracies): to eliminate poverty, globally provide universal health, and address global warming issues.

- Requiring government regulations over commerce which includes a managed currency and exchange rates.

These economic concerns are buried in a dialogue over other meaningless things that do not matter. The media tends to talk about issues that stir the emotions and are less academic for a public that does not or will not think for themselves. Too much TV is not a good thing.

## Liberalism

The liberals were looking at a world of hurt and suffering by the poor as an unnecessary and unconscionable inequity while the rich got richer. To liberalism this is a resolvable matter through government regulations,<sup>1</sup> raised taxes on the rich, and foreign aide to economically elevate the poor, third world, countries out of life-threatening conditions to share in the well-being of the industrial nations.<sup>2</sup> Sadly, if you are liberal, the U.S. Congress like the country at large, itself, is divided down the middle but leaning right. How are major "global" changes to be supported, promoted, or influenced successfully?

And is not global peace a pre-requisite? War sets this vision back at least a couple generations. When has America, the credit nation in all this, *not* been at war somewhere on the globe! Religion, too, supports a splintered ideological view. Could a global one-world religion be envisioned by liberalism? Christianity doesn't play well with such an ecumenical concept.

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<sup>1</sup> LBJ's guns and butter budget for example.. Vietnam and the Great Society funding.

<sup>2</sup> Deficit spending was selecting to incur these national security expenditures without earning a sufficient surplus in trade and services to offset the dollar outflow. You shouldn't give away borrowed money.

And Jesus said "*the poor you always have with you.*"  
Mark 14:7

Professor Stiglitz assures us, though, that "*A change in mindset will be essential if we are to change the way globalization is managed. Such a change is already underway. We can restructure globalization so that those both in the developing and developed world ...can all benefit—though there are special interests that will lose out.*"<sup>3</sup>

## Conservatism

The general principle being defended by conservative economics (Austrian school of thought) is that the market is self-adjusting. Presidents Coolidge and Hoover exemplify this principle best. They were hands-off administrations. Let the market through a cycle of recessions find its equilibrium and the gold standard will keep inflation at bay.<sup>4</sup> Stockman argued that in error most other presidents (democrat and republican) endorsed "managed currency" theories, as embodied in the new deals monetary tinkering which established the crucial predicate; namely, that monetary manipulation is a legitimate tool of state policy. So doing, it paved the way for "*... management of the gross domestic product GDP by means of Keynesian deficit spending.*"<sup>5</sup> There is even a word for this: *dirigisme*, state control of economic and social matters. Like President Reagan famously remarked, "*In this present crisis,*

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<sup>3</sup> Joseph E Stiglitz. "Making Globalization Work" (W.W. Norton and Company, New York, NY. 2006). pg. 22,24.

<sup>4</sup> CPI near 1.

<sup>5</sup> David A. Stockman, "The Great Deformation. The Corruption of Capitalism in America" (Public Affairs: New York, NY. 2013). Pg. 190.

*government is not the solution to our problem; government is the problem."*<sup>6</sup>

When Nixon took the country off the gold standard, Stockman remarked, "*No longer would money occupy it's historic role as a private instrument of commercial exchange and storehouse of value, redeemable for an asset who's price was fixed, intrinsic, and derived wholly apart from the state.*"<sup>7</sup> Stockman noted that until the Brendon Woods agreement was nullified true far left liberalism could only be a dream. In his words, "*The truth is, Keynesian policy was a nonstarter under the old regime of gold convertible money. ... Yet it was the crucial way station to the new world of permanent deficit spending and the T-bill standard money which was eventually to come.*"<sup>8</sup> He argued that without the gold standard, once off this standard which controlled the printing of money, presidents were free to "*eliminate the balanced budget. subsidize farm prices, institutionalized social insurance, wage endless war, all without raising taxes, if they want...*"<sup>9</sup>

Stockman argues for the gold standard, but underscores a need for global trade. America simply produces more than it can sell at home. Just after World War One, Europe and Asia were economically devastated and needed a creditor nation like the U.S.A. to provide. Business was good! "*Modern Keynesian historians ... insisted the great depression was caused by the gold exchange standard;*" opined Stockman. "*In truth, he assures us, "the cause of the hangover from the financial carriage [the great depression]*

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<sup>6</sup> This is an economic doctrine where the state exerts a strong directive influence in a market economy, designating a capitalist economy in which the state plays a strong directive, as opposed to a merely regulatory role, over economic affairs.

<sup>7</sup> David A. Stockman, "The Great Deformation. The Corruption of Capitalism in America" (Public Affairs: New York, NY. 2013). Pg. 190.

<sup>8</sup> *ibid.* p. 190ff.

<sup>9</sup> *ibid.* p. 194.

*was brought on by the great war [WWI and the Treaty of Versailles], and subsequent Wall Street foreign bond issue [money printing] and spree that cantilevered [supported] massive debts [borrowing from Peter to give to Paul] on top of broken economies and already a bankrupt nation."*<sup>10</sup>

Stockman glanced across the pond and noted Britain was of the same mindset as the U.S.A.

Like the United States, the United Kingdom was living way beyond its means, as reflected in a festering balance of payments crisis. Even though by then it had dismantled most of its empire, and still could not make ends meet, it went to the heavy burdens of its welfare state. Domestic demand needed to be throttled back by an immediate sharp increase in the bank of England discount rate, and an emergency budget just don't watch the flood of red ink it was financing imports the UK couldn't afford. The British labor government resorted to the Keynesian play ball, instead, and resolutely refused to permit the bank of England to raise the discount rate, even though interest rates were deeply negative in real terms. Like today's financially profligate governments, it does attempted to borrow its way through the graces.<sup>11</sup>

A "welfare state" is an entitled peoples, a nation rewarding the vote to the party that makes all things easier, a nation of fledglings (excuse my rudeness) that complain to be made comfortable. That was not the liberal vision, exactly. Liberals want to help the poor not turn a democracy into a selfish, all-for-me, nation. Instead of seeking to add to the economy through frugality, being a member of the working force, living within their means, and seeing democracy as the right to pursue their dreams—the U.K. and the U.S.A. end of living on the overdraft on their credit.

This mindset could not work under the gold standard because the amount of currency in circulation was restricted by that standard (parity was \$35 per ounce). In 1971 President Nixon threw out the Bretton Wood Agreement which established gold as the standard on a

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<sup>10</sup> *ibid.* p. 242.

<sup>11</sup> *ibid.* p.252.

global market. From then on, the money supply could be printed at will.

## **The Gold Standard**

Conservatives had the head and liberals the heart and this could work out reasonably well if unity put them in the same political body.

Historically, the liberal vision, though its roots were in President Franklin D. Roosevelt's "New Deal,"<sup>12</sup> could not fully be realized until 1971 and President Nixon took America off the internationally accepted gold standard with parity at \$35/oz. Until Nixon circumvented the Bretton Wood agreement of 1944, nations in the agreement needed to safeguard gold supplies since these backed up dollars in circulation (M1). The only way to justify an increase in the money supply (print dollars) would be to either stockpile more gold or change parity on the open market. After President Nixon took the U.S. off this standard, the exchange rate "floated" which allowed for two things to happen.

1. While claiming undeveloped country status and being encouraged, therefore, to export goods without restrictions (no tariffs), a country like China could eventually depreciate their currency in relation to the U.S. Dollar. Chinese exports, for example, therefore, sold for less in the U.S. on the exchange rate. Beside this, Chinese labor was cheaper, and Chinese exports were encourage as a developing market. This necessarily produced a

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<sup>12</sup> ....with public memories of the depression hardship still fresh, politicians of both parties were quick to embrace "countercyclical" fiscal policy as a convenient hall pass on the discipline of the all-time balanced budget religion. And waiting in the wings to justify that propensity was an even more virulent form of the Keynesian fallacy which became known as the "new economics." [Stockman, 226]

deficit trade balance for the U.S. But we didn't mind since we intended on subsidizing the economic development of these poorer countries. (We were wrong about China.)

2. World markets eventually traded fiat currency (Treasury Bonds) rather than commodity currency (gold). China, for example, sold their goods to the U.S.—not for gold but—for Treasury Bonds used as fiat currency. The U.S. Treasury prints the Bonds and sells them to the Federal Reserve which prints paper money (Federal Reserve Certificates, what's in your wallet and purse). The dollars go into the U.S. Treasury and the Bonds are auctioned on the open market with a yield set by the "Fed" to zero interest (Called quantitative easing). T-Bonds are no longer bonds as much as they are now fiat currency. This is comparable to using your credit card to get money designated for charity. It is the ethical responsibility of the industrial countries to help the third world countries. The goal is social and economic equality (which the conservatives see as a form of socialism and the liberals call democratic socialism).

Stockman wrote:

Financial discipline was reaching the breaking point, and... sound money was imperiled. It was also a historic milestones, signifying the two decades of soldiering in the cause of fiscal and monetary orthodoxy by Harry Truman, President Eisenhower, and even John F Kennedy's treasury department had been for naught. So the final mile on the road to the camp David default (Nixon, 1971) was embarked upon in March 1968. The so-called two-tier gold market which emerged from the crisis in the London market was destined to be short-lived because the dollar was no longer convertible on the demands of the citizenry, but only at the pleasure and convenience of the state. Richard Nixon soon found in meeting the nations obligation to pay its debts in gold was inconvenient in his own reason of state: reelection in 1972. The record of the next several decades however illuminated all doubt.

The combination of free markets in freely printed money gave rise to a toxic financial deformation; namely, the vast financialization of the

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world economy and the rise of endless carry trades, massive arrangements of speculative hedging, and monumental daisy chains of debts, owned by debts, owned by still more debts.<sup>13</sup>

### Keynesianism

Most economic advice to a U.S. Administration since 1971 has been Keynesian. Keynesian economics, supported by a liberal ideology, argues that through the distribution of money (demand-side economics) , providing consumers with the resources to consume, the economy can maintain a healthy level of inflation and growth.

"Keynesian economics is an economic theory of total spending in the economy and its effects on output and inflation. Keynesian economics was developed by the British economist John Maynard Keynes during the 1930s in an attempt to understand the Great Depression. Keynes advocated increased government expenditures and lower taxes to stimulate demand and pull the global economy out of the depression. Subsequently, Keynesian economics was used to refer to the concept that optimal economic performance could be achieved — and economic slumps prevented— by influencing aggregate demand through activist stabilization and economic intervention policies by the government. Keynesian economics is considered a "demand-side" theory that focuses on changes in the economy over the short run."<sup>14</sup>

The problem at hand was not a shortage of reserve assets in the global monetary system, as liberalism might argued. To the contrary, Stockman maintains, it was a shortage of financial discipline in the nation which had insisted that the U.S. dollar become the reserve (in the form of Treasury Bonds) in a new monetary system fashioned after Bretton Woods.

Being off the gold standard [1971] allows the U.S. Federal Bank, by lowering the yield rate to zero on treasury bonds, to replace a gold standard with these bonds. This allows for the market to set a value on the bond that

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<sup>13</sup> *ibid.* p. 258-9.

<sup>14</sup> <https://www.investopedia.com/terms/k/keynesianeconomics.asp>

justifies the printing of more dollars.<sup>15</sup> It is driven by the rationalization that in order to control inflation and insure near zero unemployment, the distribution of dollars (M1) must be regulated. This is an economy regulated by the consumer's demand for goods.

Thus, liberalism sees government intervention and control as a savior to a market that otherwise will be to volatile and unpredictable, but is this correct?

### **Self-Adjusting**

Does conservatism have a point about a self-adjusting market? Maybe not. Speculators [or if you want to be polite: investors] tend to introduce financial derivatives as a hedge<sup>16</sup> against financial risk and reap huge gains. During the golden twenties, speculators bought on margin. During the 30's to correct this, regulators enforced a 10% margin which means if you bought stock you had to come up with 90% of the cost of the shares. You could only borrow 10%. But during the twenties the borrowing was rampant. (After the market crash of 2008, the SEC restricted investors from selling short after Lehmans went belly up.)

But, on the flip side, how does a government successfully regulate against market greed?<sup>17</sup> How do you legislate compassion and reasonableness? How is capitalism to survive in a non-democratic (communist) country? Are capitalism and socialism mutually exclusive?

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<sup>15</sup> quantitative easing.

<sup>16</sup> In today's market, some hedge funds are not regulated at all.

<sup>17</sup> The Glass-Steagel act of 1933 maintained a distinction between commercial vs. investment banking. The Federal Reserve 12 divisional banks were created for short term loans to commercial bank against liquid collateral only. It was repealed under President Clinton in 1999. Some Glass-Steagall supporters argue that its demise led to the 2007 financial crisis, and some Democrats have put a good amount of effort into restoring it

Liberalism is viewed as a form of socialism by conservatives while liberals refer to their ideology as a democratic-socialism. But is this a contraction in terms? How does an indigenous democracy look. The U.S. Democratic idea was specifically engineered to make the creation of new or changed regulations difficult. (We change political parties in power every midterm.) How can a democracy regulate anything in a timely manner when its legislative body is ideologically so divided!?

When Europe in the late 20's didn't need our exports as they did immediately after the great war, prices dropped, unemployment went up and massive private debt could not be repaid. The market, understandably did some cleanup by dumping junk bonds and penny stocks for which brokers had to cut their loses. Recession necessarily followed. The nation was on the gold standard and people were hoarding gold. President FDR had to require by law that hard money, gold, be collected by the federal government which would allow the Feds to print more money for circulation (Keynesian style). Professor Stiglitz maintained that this shows that the free market's are *not* self-adjusting.<sup>18</sup> It needs to be regulated. The professor believes "*The conventional wisdom that the United States development was the result of unfettered capitalism is wrong.*"<sup>19</sup>

The liberal argument goes: There are "structural" defects in capitalism. There is a need for a Keynesian lite version of monetizing budgetary shortfalls. One such structural deficiency surfaced in 1965 with Americans spending more overseas than Europeans spent in the U.S.A. This outflow of U.S. Dollars (at the time the country was

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<sup>18</sup> In 2005-7 when mortgages were awarded to families without the means to repay them, the sub-prime nightmare consequently in 2008, one might argue, was the result not of self-adjustment but government interference.

<sup>19</sup> Joseph E Stiglitz. "Making Globalization Work" (W.W. Norton and Company, New York, NY. 2006). pg. 19.

still on the gold standard) threatened the gold supply at home. President Johnson took action.

"The President's [LBJ]'s 'guidelines' are designed to improve the deficit in our balance of payments. Because Americans now spend abroad more than foreigners spend here, there is a net outflow of dollars from the United States, Central banks in other countries have the right to convert their surplus dollars to gold. And the resulting gold drain jeopardizes the stability of U.S. Currency."<sup>20</sup>

To alleviate this problem Undersecretary to the Treasury, Robert Roosa introduced the Roosa bonds which were purchase with U.S. dollars but redeemed in foreign currency. Exchange rates needed to be honored when converting dollars to foreign currency.<sup>21</sup> We did not need to give gold for our foreign purchases which would drain our supply of gold. We issued these bonds as a kind-of commercial paper, or short-term loan, redeemable in the foreign currency not "our" gold. In effect U.S. dollars were converted to foreign currencies at an established exchange rate as is done daily in the modern currency market.

## Government Involvement

In the "*The Entrepreneurial State: Debunking Public vs. Private Sector Myths*" Mariana Mazzucato argues for government involvement in research which is too costly on a corporate level. Her big issue is global warming and harnessing the power of the sun for electricity. She points out astutely that the government funded the research that led to the internet, voice recognition software, global positioning software, and wifi to name a few modern technological advances which are now part of our economic, medical, and industrial progress.

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<sup>20</sup> <https://www.thecrimson.com/article/1965/4/14/a-new-gold-crisis-even-if/>

<sup>21</sup> see also: The Exchange Stabilization Fund (ESF) is an emergency reserve fund of the United States Treasury Department, normally used for foreign exchange intervention.

But Uncle Sam's biggest arm, far reaching in its commercial and financial influence, to control the economy is the Fed.

## The Fed

When the Federal Reserve Act was signed into law by President Woodrow Wilson in 1913 it provided for a Federal Reserve Bank that would lend cash to commercial banks at a discount if they had poor liquidity for the loans and withdrawals they processed. These banks did not invest their funds in stocks and bonds. They made their money by loaning their funds to businesses and private individuals. Investment banks, such as Citigroup, Bank of America, J.P. Morgan, invest private deposits in stocks and bonds and other investment vehicles. Some of these are custodial banks for investment firms like Fidelity, Putnam, MFS Management, etc.

The Federal Reserve Bank in Washington's discount window began to offer short term loans for long term investment—which was *NOT* what the Fed was for.<sup>22</sup>

So, a dozen branches were established in various cities to accommodate commercial banking as originally intended. The Central Federal Reserve in Washington, however, became adapt at setting interest rates, buying T-Bonds, and printing money to manipulate the market.

Eventually investment banking went global which begs the question: what about the spirit of nationalism? Why should I buy only U.S. Stock when merging markets offer greater returns—grant it, with higher risk. Nationalism says, "Buy America; hire America?" Liberalism says, "Support a global interest in foreign welfare initiatives."

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<sup>22</sup> During and immediately after WW2. to quote Stockman, *"as a practical matter the banks functioned primarily as a receptacle for the government's massive outpouring of wartime debt. ... as its role as fiscal agent of the U.S. Treasury, the Federal Reserve also bade farewell once and for all to the founders' vision that it function passively as a standby provider of liquidity to the banking system."* [Stockman, 200]

## Nationalism

Nationalism is the rallying cry of President Trump in his "Make America Great Again" motto. For liberals, this suggests a protectionism that focuses the attention solely on America's wants and needs. Foreign aid vis-a-vis this progressive MAGA idea is unwelcome as unaffordable nation building. The money is better spent on Americans: the infrastructure, a border wall, and the military. This form of Trumpean progressivism concludes: if Europe and the near eastern countries want our protection, let them pay for it since they can afford to. NATO, too, needs to pull their own weight.

But to liberals, this is shades of fascism, which is a radical nationalism popular among Germans during World War 2. What liberals forget is how this German political movement got traction. The allies' at the Treaty of Versailles, June 28, 1919, showed no mercy in placing heavy reparations on the Kaiser's people for the war. Even a cornered rat will strike back. The economist Keynes recommended leniency. Stockman, himself, even thought it would have been wise for the U.S.A. to forgive Europe all their war debts. Reasonableness does not press to get the last tittle of one's legal rights. But there was no clemency for the German people which all but guaranteed a Hitler arising out of the political ashes of the great war.

Keynesian economics, however, did preach a form of protectionism which sounds strangely Trumpian but, in my opinion, is not. Rank protectionism was the outstanding point of a Keynes' 1933 essay entitled "*national self-sufficiency*."

Keynesian economics has been an American rallying cry in times of economic depression starting with President FDR. "*It was on the matter of autarky—America first,*"

write Stockman, *"that the new deal fell in line with Keynes' true contribution to the depression era policy debate."*<sup>23</sup> Keynes urged for an era of national autarky. When a nation is overwhelmed with its own problems, it tends to show a marked disinterest in the problems of other nations, but according to Stockman, this was a mistake. The depression, by Stockman's economics, was due to a lack of foreign trade. When the Great War devastated Europe, the U.S.A. became a creditor nation during the golden twenties. The well went dry by the late 1920's after Europe got back on its feet economically and no longer needed massive U.S.A. imports. Because of massive margin buying on the market due to an excited greed, the depression was not far away. Keynes recommended a demand driven solution by distributing more dollars to consumers, but local wants cannot replace foreign need. Looking inward in self-pity, as with any form of depression, tends to make the depression worse.

*"This misguided and fiscally cancerous project would soon be embraced by both parties."* Stockman moans on, *"It was the development which was bound to end in the triumph of crony capitalism and the fiscal bankruptcy of the nation."*<sup>24</sup>

But all in all our presidents' hearts were in the right place ....right?

## **Altruistic?**

How much of the nation's best interests were on the presidents' minds and hearts over the years since the 1920's?

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<sup>23</sup> David A. Stockman, "The Great Deformation. The Corruption of Capitalism in America" (Public Affairs: New York, NY. 2013). Pg. 194.

<sup>24</sup> *ibid.*

In 1971 President Nixon took us off the gold standard—<sup>25</sup>it is suggested with reason—in order to control unemployment during a projected recession. The nation was approaching his reelection and the economy drives voter interest. President Eisenhower [1960] warned about a large peacetime military, the industrial-military complex, a formidable union of defense contractors and the armed forces as a threat to democracy.<sup>26</sup> President Reagan ignored this advice [1981-89] giving the country its first trillion dollar public debt and providing President Bush (41) with the resources for a prolonged war in Iraq (a near east military involvement which continues to this day adding additional trillions of dollars to the national debt.) When President Eisenhower took office in 1953, he immediately brokered the end to the Korean war. Not one soldier died during war on his watch. He downgraded the army by a million men angering the Pentagon leadership which were so happy to work with his successors who were into expansion.

Are these decisions political calls?

It is not my purpose here to denigrate former administrations nor to analyze the motives of the current one. Yet, it seems that slowly over the course of a century, through war time debt, nation building interests, humanitarian efforts through foreign aide, and primarily, for the vote of an entitled nation, the Federal Reserve hand in hand with government lost sight of, or simply found it impossible to be, balancing its budget, managing its debt, and as the Constitution directs in Article I, Section 8 and empowers Congress to

"lay and collect Taxes, Duties, Imposts, and Excises, to pay the Debts and provide for the common defense and general Welfare of the United States."

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<sup>25</sup> He endorsed Milton Friedman's doctrine of floating paper money.

<sup>26</sup> <https://www.npr.org/2011/01/17/132942244/ikes-warning-of-military-expansion-50-years-later>

The problem at hand was not a shortage of reserve assets in the global monetary system. Perhaps with the exception of the Panic of 1907 when the industrial revolution was in full swing, money was *NOT* in short supply. To the contrary, Stockman argues, it was a shortage of financial discipline in the nation. "The monetary policy battles inside the Kennedy administration did, indeed, demarcate the twilight of sound money."<sup>27</sup>

At the heart of the US financial profligacy was an unwillingness to pay for the huge and largely unacknowledged cost of empire. By the end of 1968, the outflow of funds to support the nations far flung military enterprises, the hot war in southeast Asia, and the growing network of security assistance and foreign aid had accumulated to \$70 billion since the start of the 60s. It would reach nearly \$100 billion by the time Nixon closed the gold window at the US treasury.<sup>28</sup>

Conservatives do not trust liberal altruism to be real. The claim is that liberals are paying for votes with free handouts. From an economic standpoint, this is irrelevant. Globalism seems to encourage trampling the flag, the symbol of our nationalism, under the foot of the first amendment. Yet, if there is no creditor nation left to subsidize the world's needs, if they all join the rest of the world in a deep well of debt and poverty, there will be no one to through down the rope.

But if we look at socialism from 50,000 feet up, it is inflation that we are worried about.

## **Inflation**

A word about "inflation" This is the economist's bugaboo.<sup>29</sup> In January 1969 the CPI reached the unheard of

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<sup>27</sup> David A. Stockman, "The Great Deformation. The Corruption of Capitalism in America" (Public Affairs: New York, NY. 2013). Pg. 248ff.

<sup>28</sup> *ibid.* p. 256.

<sup>29</sup> One well written review of Stockman's work said, "Enough with the inflationisties' memes! With each passing year they are going to be less and less believable. If you want

peacetime level of 6.3%. It was, to Stockman, a warning that the tottering structure of Bretton Woods (the gold standard) was reaching the dangerous turning point. According to Milton Friedman, an advisor to Republican President Ronald Reagan,

'inflation would be rapidly extinguished if money supply was harnessed to a fixed and unwavering rate of growth, such as 3% per annum. If that discipline was adhered to consistently, nothing more was needed to unleash capitalist prosperity, not gold convertibility, fixed exchange rates, currency swap lines, or any of the other accoutrements of central banking which had grown up around the Brentwood system."<sup>30</sup>

## Epilogue

There is reason to caution the reader that much of what is called economics is based in theory. Many of the pundits on cable networks are not sharing important information with the listeners more than they are saying what they think you want to hear for ratings' sake. Some of the issues discussed on air, however, do relate to economic concerns or reflect liberal or conservative concerns that support their respective economic ideology. It is up to us to be informed. Read books not newspapers.

Obviously, both the conservative and liberal side have reason to think they are on the side of the right. If your on

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to know why, I would start with a better understanding of how our monetary system actually works - look for authors Cullen Roche, Randall Wray, Warren Mosler, Frank N. Newman - who will tell you inflation IS the constrain but you don't have to cover before it.

Then move onto why inflation is probable something we should be hoping for - at least as an indicator that aggregate demand and the economy are not circling the drain. Read Daniel Albert's "Age of Oversupply;" Martin Ford's "Lights in the Tunnel;" and Jason Lanier's "Who Owns the Future" among a few who actually get it."

<sup>30</sup> David A. Stockman, "The Great Deformation. The Corruption of Capitalism in America" (Public Affairs: New York, NY. 2013). Pg. 261.

the political "right," spending what you don't have and just printing dollars out of thin air is no way to meet budget. If you're on the "left," the world by its sheer size (billions of people) and need, proves the limitation of the gold standard. Using Roosa bonds in the post WW2 period and Treasury bonds now as a substitute allows for expanding our concern and aide.

If you are conservative, there is so much need at home, it makes sense to start there, but for liberals, we are only part of the larger, world-wide picture of poverty and need. How could my conservative ideology tie health care and life threatening medical needs to a market that is so volatile and unpredictable by design (insider trading is illegal). It makes liberal sense to call medical assistance a "right" and not a "privilege." The blessings of America need to be offered to all or it is not reasonably offered to any.

A fast rising market might be ballooning (the wealth effect—virtual not real wealth), that is, the PE (price earnings index:  $p/e$ ) of many company's stocks might be overvalued. The PE ratio is too high. Facebook is fun but useless as a true economic indicator—my opinion. America is economically healthier—also, in my opinion—with a manufacturing sector not just as a technical one. We need Mike Lindell's pillows. We are better off with fewer Google programmers and more electricians, plumbers, and carpenters. Conservatives are happy: the manufacturing sector currently is back; this means from the steel mills, coal mines, and oil to dairy products and soy, America has exports and the economy is healthy.

Liberalism, however, only sees the U.S.A. *stealing* these industries from underdeveloped countries who need exports to grow. Outside of war, America does not need to be a creditor nation. Our interest should be our liberality, our interest in raising the poorer countries of the world out of poverty. The liberal fear is that conservatism means protectionism. The U.S.A. along with Europe and Canada

should be about improving living conditions globally—not mercantilism or empire building. Liberalism maintains—and this is Stockman's contention also, even as a conservative—we NEED global trade. Liberals contend that we need to encourage underdeveloped nations by purchasing their exports.. For Stockman, we need this global market for our own exports because America produces more than it can use itself. Liberals are okay if what we give away we give freely as aide. Let the government subsidize our debt. This gets to the basic issue as to whether or not a healthy U.S. economy is debt driven.

Liberals are not worried about national debt.<sup>31</sup> A 2% annual inflation rate (printing money) along with a 2% GDP growth, a rising minimum wage, and higher taxes are the economic factors of interest for them.

But to conservatism, an economy that grows too fast and overheats in terms of business expansion is at risk of recession since the control of debt and the money supply is tighter—at least ideologically so. An eager market might balloon PE, and buy too much on margin. An excited nation starts buying on credit (with interest rates too low). Higher wages are good to the conservative if based on earnings (which grow ever so slowly) and not government regulation.

Both Stockman and Stiglitz maintain the need to invest in underdeveloped nations either through aide or U.S. companies establishing subsidiaries within their borders to encourage commerce and the development of democratic

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<sup>31</sup> The dollar is the world trading currency at present. We have a negative balance of trade with many countries who hold what we owe them in treasury bonds (long term) and notes (short term). If the dollar depreciates to where the world market (IMF) replaces it or the World Bank lowers our bond rating or if we default on the interest payment of our national debt, this might be the moment of prophecy: Revelation 18:11 *"The merchants of the earth will weep and mourn over her because no one buys their cargoes anymore."*

principles of governance. American markets NEED foreign markets for its exports, believes Stockman.

Professor Stiglitz admits, "... *there has yet to be created at the international level the kinds of democratic global institutions that can deal effectively with the problems globalization has created.*"<sup>32</sup> The big one is economic globalization has outpaced political globalization. We have given the children the keys to the car before they learn the necessary discipline to drive it safely. And what about global health, poverty, and warming? These remain challenging. We may need an additional global demarche.<sup>33</sup>

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<sup>32</sup> .Joseph E Stiglitz. "Making Globalization Work" (W.W. Norton and Company, New York, NY. 2006). pg. 21.

<sup>33</sup> a political initiative