AFTER THE MELTDOWN

Economic Redesign for the 21st Century

by David Korten

Our economic and political system has produced a credit meltdown, a shrinking middle class, stagnant wages, escalating food and energy prices, a dramatic decline in U.S. manufacturing and research capability, billion-dollar pay packages for hedge fund managers, skyrocketing consumer debt, an unstable U.S. dollar, a trillion-dollar bailout for Wall Street, and the spreading collapse of Earth's environmental systems. By any credible measure, our economic system has failed.

When economic failure is systemic, temporary fixes, even very expensive ones like the Wall Street bailout, are like putting a Band-Aid on a cancer. They may create a temporary sense of confidence, but the effect is solely cosmetic. Politicians and most pundits are looking only at the tip of the economic iceberg. Pull away the curtain to look behind the headlines, and we find a potentially terminal economic crisis with three defining elements:

1. Excess human consumption, which is accelerating the collapse of Earth's ecosystem.
2. Unconscionable inequality and the related social alienation, which are advancing the social collapse manifest in terrorism, genocide, crime, and growing prison populations.
3. An economic system ruled by financial markets, global corporations, and economic theories devoted to increasing consumption while rolling back real wages and benefits for working people to make money for the richest among us.

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David Korten, author of When Corporations Rule the World *and* The Great Turning: From Empire to Earth Community, *is co-founder & board chair of* YES! Magazine *and a board member of the Business Alliance for Local Living Economies. See davidkorten.org.*

What will it take to green our cities? A roof in lower Manhattan.

FLICKRCC/ALYKAT (TOP)

This is a time for decisive action. The financial meltdown has shaken public confidence in the people and institutions now in charge. The transition to new political leadership creates an opening for bold action. In this article, I frame the choice before us and present my high dream of the economic address to the nation that I hope President Barack Obama might deliver shortly after his inauguration.

The Old Economy Economist vs. the New Economy Ecologist

The task before us is to replace the culture and institutions of a twentieth-century economy designed and managed to serve financial values with the culture and institutions of a new twenty-first-century economy designed to serve life values. The former undoubtedly leads to environmental, social, and economic collapse. The latter holds promise of leading to the world most humans really want for themselves and their children—a world of healthy, happy children, families, and communities living together in peace in vibrant, healthy, natural environments. It is ours to choose.

The choice between the path of failure and the path of possibility is framed with dramatic clarity by two influential authors—one a twentieth-century economist and the other a twenty-first-century ecologist. Jeffery Sachs, in *Common Wealth: Economics for a Crowded Planet* (2008), prescribes a Band-Aid. James Gustave Speth, in *Bridge at the Edge of the World: Capitalism, the Environment, and Crossing from Crisis to Sustainability* (2008), prescribes a holistic cure grounded in a cultural and institutional transformation.

Sachs, an economist by training and perspective, is known for his work as an economic adviser to national governments and an array of public institutions. *New York Times* reporter Peter Passell described him as "probably the most important economist in the world" in the article "Dr. Jeffrey Sachs, Shock Therapist," which was published June 27, 1993. Speth, who has degrees in law and economics, has a distinguished administrative career as founder and former head of the World Resources Institute, administrator of the United Nations Development Program, and now Dean of the Yale University School of Forestry. Sachs writes from the perspective of a neoclassical economist; Speth from the perspective of a systems ecologist.

Sachs: Painless Fine Tuning

Sachs opens *Common Wealth* with a powerful and unequivocal problem statement that raises expectations of a bold break with the economic orthodoxy of what Sachs refers to as "free-market ideologues."

> The challenges of sustainable development—protecting the environment, stabilizing the world's population, narrowing the gaps between rich and poor, and ending extreme poverty—will take center stage. Global cooperation will have to come to the fore. The very idea of competing nation-states that scramble for markets, power, and resources will become passé.... The pressures of scarce energy resources, growing environmental stresses, a rising global population, legal and illegal mass migration, shifting economic power, and vast inequalities of income are too great to be left to naked market forces and untrammeled geopolitical competition among nations.

This statement would have served equally well as an opening statement for Speth. Beyond the problem statement, Sachs and Speth both agree that there is an essential role for government and for greater cooperation among nations. From there, however, as I will elaborate later, we might wonder whether they live in different worlds.

Sachs assures us that we can easily end environmental stress and poverty using existing technologies. By his estimation, with modest new investments we can sequester carbon, develop new energy sources, end population growth, make more efficient use of water and other natural resources, and jump-start economic growth in the world's remaining pockets of persistent poverty. Sachs made clear his belief that there is no need to redistribute wealth, cut back material consumption, or otherwise reorganize the economy, during his 2007 lecture to the Royal Society in London, which was broadcast by the BBC.

> I do not believe that the solution to this problem is a massive cutback of our consumption levels or our living standards. I think the solution is smarter living. I do believe that technology is absolutely critical, and I do not believe ... that the essence of the problem is that we face a zero sum that must be re-distributed. I'm going to argue that there's a way for us to use the knowledge that we have, the technology that we have, to make broad progress in material conditions, to not require or ask the rich to take sharp cuts of living standards, but rather to live with smarter technologies that are sustainable, and thereby to find a way for the rest of the world, which yearns for it, and deserves it as far as I'm concerned, to raise their own material conditions as well. The costs are much less than people think.

Far from calling for a restraint on consumption, Sachs projects global economic expansion from $60 trillion in 2005 to $420 trillion in 2050. Relying on what he calls a "back-of-the-envelope calculation," he estimates that the world's wealthy nations can eliminate extreme poverty and develop and apply the necessary environmentally friendly technologies to address environmental needs with an expenditure of a mere 2.4% of projected mid-century economic output. Problem painlessly solved, at least in Sachs's mind.

Sachs gives no indication of why, if we can stabilize population and meet the needs of the poor with modest expenditure, we should need or even want a global economy six times larger than its present size. As is true for most economists, and indeed the general public, Sachs simply assumes that economic growth is both good and necessary. It apparently never occurs to him to question this assumption, which Speth demonstrates to be false, as I will elaborate later. Furthermore, since Sachs maintains that there is no need for more than the very modest redistribution he estimates is required to put the poorest of the poor on the path to economic growth, he seems to assume that consumption will continue to increase across the board. He says nothing, however, about what forms of consumption he believes can continue to multiply without placing yet more pressure on already overstressed natural systems. Unless more people are driving cars, living in big houses, eating higher on the food chain, traveling further with more frequency, and buying more electronic gear, what exactly will we be consuming more of? And from what materials will they be fabricated? Sachs neither raises nor answers such questions.

Nor does Sachs mention the realities of political power and resource control—for example, the reality that in most instances poor countries are poor not for want of foreign aid but because we of the rich nations have used our military and economic power to expropriate their resources to consume beyond our own means. It is troubling, although not surprising, that Sachs's reassuring words get an attentive hearing among establishment power holders.

Speth: Redirection and Redesign

In stark contrast to Sachs, Speth concludes, "The planet cannot sustain capitalism as we know it," calling for nothing less than a complete economic redesign.

No simple back-of-the-envelope projections for Speth. He takes a hard look at the research on growth and environmental damage in relation to gross domestic product (GDP) and concludes that despite a slight decline in the amount of environmental damage per increment of growth, growth in GDP always increases environmental damage. The relationship is inherent in the simple fact, which apparently escaped Sachs, that GDP is mostly a measure of growth in consumption, which is the driving cause of environmental decline. Speth is clear that although choosing "green" products may be a positive step, not buying at all beats buying green most every time:

> To sum up, we live in a world where economic growth is generally seen as both beneficent and necessary—the more, the better; where past growth has brought us to a perilous state environmentally; where we are poised for unprecedented increments in growth; where this growth is proceeding with wildly wrong market signals, including prices that do not incorporate environmental costs or reflect the needs of future

generations; where a failed politics has not meaningfully corrected the market's obliviousness to environmental needs; where economies are routinely deploying technology that was created in an environmentally unaware era; where there is no hidden hand or inherent mechanism adequate to correct the destructive tendencies. So, right now, one can only conclude that growth is the enemy of environment. Economy and environment remain in collision.

Speth is clear that we are unlikely as a species to implement the measures required to bring ourselves into balance with the environment so long as economic growth remains an overriding policy priority, consumerism defines our cultural values, and the excesses of corporate behavior are unconstrained by fairly enforced rules. To correct our misplaced priorities, he recommends replacing financial indicators of economic performance, such as GDP, with wholly new measures based on nonfinancial indicators of social and environmental health—the things we should be optimizing. Speth quotes psychologist David Myers, whose essay "What Is the Good Life?" claims that Americans have:

> big houses and broken homes, high incomes and low morale, secured rights and diminished civility. We were excelling at making a living but too often failing at making a life. We celebrated our prosperity but yearned for purpose. We cherished our freedoms but longed for connection. In an age of plenty, we were feeling spiritual hunger. These facts of life lead us to a startling conclusion: Our becoming better off materially has not made us better off psychologically.

This is consistent with studies finding that beyond a basic threshold level of about $10,000 per capita per year, equity and community are far more important determinants of health and happiness than income or possessions. Indeed, as Speth documents, economic growth tends to be associated with increases in individualism, social fragmentation, inequality, depression, and even impaired physical health.

Speth gives significant attention to social movements grounded in an awakening spiritual consciousness that are creating communities of the future from the bottom up, practicing participatory democracy, and demanding changes in the rules of the game:

> Many of our deepest thinkers and many of those most familiar with the scale of the challenges we face have concluded that the transitions required can be achieved only in the context of what I will call the rise of a new consciousness. For some, it is a spiritual awakening—a transformation of the human heart. For others it is a more intellectual process of coming to see the world anew and deeply embracing the emerging ethic of the environment and the old ethic of what it means to love thy neighbor as thyself.

Speth examines the abuses of corporate power and endorses calls to revoke the charters of corporations that grossly violate the public interest, exclude or expel unwanted corporations, roll back limited liability, eliminate corporate personhood, bar corporations from making political contributions, and limit corporate lobbying. He recommends a redesign of "the operating system of capitalism" to support the development of local economies populated with firms that feature worker and community ownership and to charter corporations only to serve a public interest.

The contrasting perspectives of Sachs and Speth on the three defining economic issues outlined in the introduction are summarized in Table 1. The differences are instructive, because any effort to address the current potentially fatal threats to the human future necessarily begins with deciding whether to focus on adjustments at the margin à la Sachs, the economist, or deep

TABLE 1: CONTRASTING POSITIONS ON THE ESSENTIAL DEBATE

	Marginal Adjustment (Sachs)	System Redesign (Speth)
ECONOMIC GROWTH	Growth in GDP is a valid measure of human progress, prosperity, and increased well-being. More is generally better. Given a combination of market forces, provision of public incentives, and a proper mix of technology there is no inherent environmental limit to economic growth.	Economic growth is disrupting the values and living systems essential to human well-being. Beyond a minimal threshold of consumption, growing community, rather than growing the consumption of stuff, is the key to increasing human health and happiness.
EQUITY	Poverty, not equity, is the issue and the proper response is to kick start the growth process within the world's remaining pockets of absolute poverty by introducing foreign aid funded technologies and social services.	Extreme poverty is the inevitable other side of the coin of extreme wealth and can be resolved only through redistribution from those who have more than they need to those who have less.
GOVERNING SYSTEM	The institutions of capitalism as currently constituted can resolve current environmental and social problems through a combination of voluntary action, modest public expenditure, and fine-tuning at the margin.	The operating systems of capitalism must be fundamentally redesigned to internalize costs, distribute ownership, and establish accountability for the human and natural consequences of economic decisions.

system redesign à la Speth, the systems ecologist.

By this point in time, given the strength of the evidence to the contrary, it is difficult to take seriously anyone who assumes, without question, that the global economy can expand by six times between now and 2050 without collapsing Earth's life support system. Unfortunately, Sachs demonstrates the intellectual myopia common to many professional economists, whose ideological assumptions trump reality. When we seek guidance on dealing with the complex issues relating to interactions between human economies and the planetary ecosystems in which they are embedded, we are best advised to turn to those, like Speth, who view the world through a larger and less ideologically clouded lens.

The Elephant Now in the Spotlight

Even Speth, however, does not address what, up until the beginning of the subprime mortgage meltdown that began in the summer of 2007, was the largely unmentioned elephant in the room: a dangerously dysfunctional financial system devoted primarily to generating financial fortunes for its major players. So I've added a third book to the mix: *Bad Money: Reckless Finance, Failed Politics, and the Global Crisis of American Capitalism* by Kevin Phillips. The author is a journalist and former Republican Party political strategist with a brilliant record of documenting the frightening excesses and distortions of extremist right-wing politics.

In *Bad Money*, Phillips cuts through the usual fog and obfuscation to explain the inner workings, and the larger consequences, of a Wall Street money game in which the players use money to make money for people who have money, without producing anything of value. They prey with impunity on the real economy of Main Street, on which we depend to provide essential goods and services. Through a restructuring of the economy that gained traction during the Reagan revolution of the 1980s, an alliance of Wall Street institutions and their captive regulators—the Federal Reserve and the U.S. Treasury Department—made finance the dominant and most profitable sector of the economy. In 1950, arguably the peak of U.S. global power, manufacturing accounted for 29.3% of U.S. gross domestic product and financial services for 10.9%. By 2005, manufacturing accounted for only 12% and financial services for 20.4% of GDP.

Step by step, restrictions were removed on debt-equity ratios, financial reporting, consumer interest rates and lending practices, and the formation of huge financial conglomerates that merge banking, insurance, securities, and real estate interests in a densely interconnected web of insider deals. Wall Street players used this freedom to capture gains from highly leveraged speculative trading schemes and pass the risks to others using exotic financial instruments and bogus credit ratings. Hedge funds, the high rollers at the leading edge of the speculative frenzy, proliferated from a couple hundred in the early 1990s to some 10,000 in mid-2007, by which time they had more than $1.8 trillion in financial assets under management. "Like digital buccaneers, and hardly more restrained than their seventeenth-century predecessors, they arbitraged the nooks and crannies of global finance, capturing even more return on capital than casino operators made from one-armed bandits and favorable gaming-table odds."

Leverage—also known as borrowing—became the name of the Wall Street game. Banks used their power to create money to feed the speculative frenzy by creating a complex pyramid of loans to each other. By Phillips' calculations, in 2006 U.S. financial sector debt, which consists largely of financial institutions lending to other financial institutions to leverage financial speculation, totaled $14 trillion, which was 32% of all U.S. debt and 107% of U.S. GDP.

Gambling with borrowed money is highly risky, as is lending to gamblers to feed their habit. At the time of its collapse, Lehman Brothers was leveraged thirty-five to one, which

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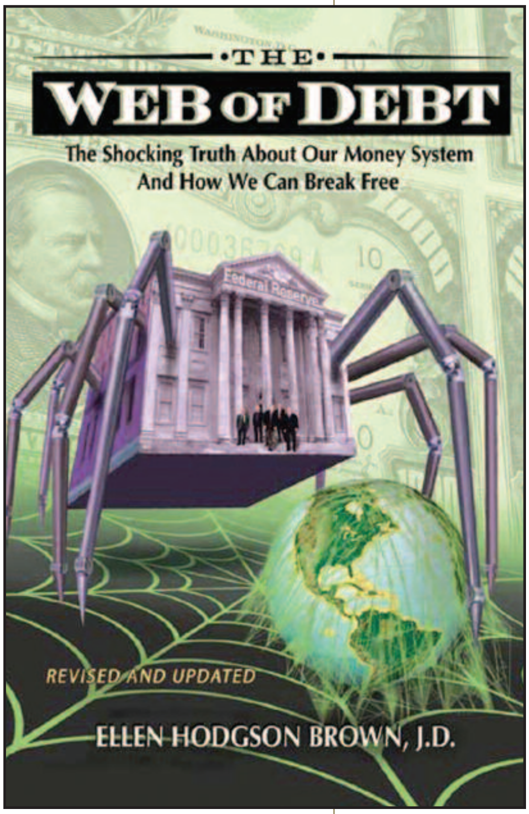

means it financed its gambling in the global financial casino with thirty-five dollars in borrowed money for every dollar of equity. This can be highly profitable in a rising market, but it is disastrous in a falling market. Because they rigged the system to pass the risk to others, the managers who made the losing bets walked away with impressive fees collected during the good times and left to others the messy work of sorting things out when Wall Street's version of a Ponzi scheme collapsed. In 2007, the fifty highest-paid private investment fund managers walked away with an average $588 million in annual compensation—19,000 times as much as average worker pay.

Over a period of roughly three decades, the Wall Street alliance used its control of the money supply and its political influence to ensure that the benefits of productivity gains in the Main Street economy were captured by Wall Street players as interest, dividends, and financial services fees. The Wall Street commitment to an upward redistribution of wealth was so successful that from 1980 to 2005, the highest-earning 1% of the U.S. population increased its share of national cash income from 9% to 19%. And most of that gain went to the top tenth of 1%.

The measures used to achieve this remarkable outcome included managing monetary policy to maintain a target level of unemployment, managing trade and tax policies to facilitate corporate outsourcing of jobs to low-wage economies, suppressing labor unions, limiting enforcement of laws against hiring undocumented immigrant workers, and using accounting tricks that understate inflation to suppress inflation-indexed wage and social security increases. As wages fell relative to inflation, and as public services were rolled back, the household savings rate fell apace.

From the beginning of 1959 to the end of 1993, the monthly U.S. household savings rate never fell below 5% of household income and it often exceeded 10%. Since April 2001 it has never exceeded 5%, and in the most recent years it has commonly been below 1%, according to the U.S. Department of Commerce's Bureau of Economic Analysis.

Desperate to find ways to make ends meet, households turned from saving to borrowing. Eager to capitalize on the opportunity thus created, Wall Street used aggressive marketing and deceptive lending practices to encourage people to run up credit card and mortgage debts far beyond their means to repay. As the borrowers inevitably fell behind in their payments, Wall Street hit the victims with special fees and usurious interest rates, creating a modern version of debt bondage.

The faster money poured into the housing market, the greater and faster housing prices inflated. The resulting real estate bubble created an illusion of increasing wealth, at least for homeowners and those who profited from speculation in the housing market. However, contrary to what some of its beneficiaries would have us believe, a real estate bubble does not create wealth. A rise in the market price of a house from $200,000 to $400,000 does not make it more functional or comfortable. The real consequence of a real estate bubble is to increase the financial power of those who own property relative to those who do not. Wall Street encouraged homeowners to monetize their market gains with mortgages, which Wall Street then converted into securities and sold off to the unwary, including to pension funds many of the hapless homeowners counted on for their retirement.

When the housing bubble inevitably burst, dazed homeowners walked away, many in financial ruin, from properties on which they owed more than market value. Securities based on these mortgages lost value, and the over-leveraged Wall Street players could not meet their financial commitments. In the face of escalating defaults, the whole system of interlocking credit obligations collapsed, and Wall Street turned to taxpayers for a bailout.

Phillips paints a stunning picture of Wall Street's hubris and corruption. Although his analysis underscores Speth's conclusion that we need a sweeping system redesign, he leaves it to others to identify appropriate remedies.

The Elephant in the Shadows

There is yet another system design issue that bears major responsibility for the credit collapse—an issue that has so far escaped the spotlight. Even Phillips mentions it only in passing. The issue is the privatized money system by which nearly every dollar in circulation has been created by a private bank with a deceptively simple, accounting-related sleight of hand. Most people think of accounting as a rather boring subject, but pay attention here, because this accounting trick is the key to understanding why our current system of debt-created money makes it possible for a few people to acquire obscene amounts of unearned money while sticking the rest of us with the bill.

Most people who take out a loan think that another bank customer deposited the money they are borrowing in the bank for safekeeping, i.e., that the bank is simply serving as an intermediary between depositors and borrowers and guaranteeing repayment. That is in fact what my college economics professor taught us many years ago. It isn't true.

Unless they are holding a long-term CD, most depositors have immediate access to their money, just as you have immediate access to the money you borrow from the bank. What actually happened when the bank approved your loan is the bank's accountant entered two numbers in the bank's accounting records: Your promise to repay the bank was entered as an asset; the money the bank put into your account was entered as a liability. At first glance it looks like these entries cancel each other out. The key is that neither entry existed previously. By this act, the bank created new money from nothing in the amount of the loan principle and caused the amount of money in the economy as a whole to increase. At the same time you acquired a legal obligation to repay the principle with interest. This, in fact, is how all money (except for coins and some special notes) is created. It should be noted that the bank-created money is electronic. It has no substance. You might say it has no existence outside the human mind. Needless to say, granting banks the power to create money with a computer key stroke and then lend it out at interest makes banking a very profitable business. These profits come at a significant cost to society in the form of economic instability and a growth imperative, concentration of wealth, and a distortion of economic priorities. Let's take them one at a time.

- **Instability and Growth Imperative:** Because the bank that issued the loan created only the principal and not the interest due on that principle, to avoid default and consequent financial collapse, the economy must continuously grow at a sufficient rate to generate a demand for new loans adequate to create the money borrowers need to make the interest payments on their previous loans as they come due. If growth falters, cascading defaults can wipe out the equity of the banks that made the bad loans, push the whole banking system into insolvency, and dry up the money supply as banks are forced to stop lending. For lack of money to facilitate exchange, businesses fall idle, workers lose their jobs, and the daily needs of Main Street families and businesses go unmet—all because banks are no longer making the accounting entries necessary to keep money flowing through the economy.
- **Inequality:** Because banks are essentially renting out the money needed to keep the Main Street economy functioning, Main Street is always in Wall Street's debt. The continuing flow of interest to Wall Street bankers assures a never-ending concentration of wealth.
- **Distortion of Priorities:** In the absence of strict governmental oversight, banks face an irresistible temptation to abuse the power inherent in their ability to create money in ways that distort society's priorities. Wall Street banks are likely to find it more profitable to make very large loans to high-stakes speculators and corporate raiders than to make smaller loans to qualified home buyers and legitimate businesses engaged in producing real goods and services—except at usurious interest rates. Desperate for money to survive,

UNDERSTANDING MONEY

The process by which money is created is perhaps the most important yet least discussed issue underlying the credit crisis and our unsustainable relationship with the earth. We must educate ourselves on the issues and develop a campaign to put monetary reform on the political agenda. Here are some useful resources for study and discussion.

Videos:

- **Money as Debt**, a 47-minute animation by Paul Grignon on video.google.com, is well suited to a group showing and discussion.
- **The Money Masters**, a three-hour documentary, provides a deeper historical and political perspective. See www.themoneymasters.com.
- **The Crash Course**, a series of video lectures by Chris Martenson, explains why the design of our money system creates an imperative for exponential growth and assures economic collapse. See www.chrismartenson.com/crash-course.

Books:

- *Creating New Money* by Joseph Huber and James Robertson (London: New Economics Foundation, 2000).
- *The Web of Debt* by Ellen Hodgson Brown (Baton Rouge, LA: Third Millennium Press, 2007).
- *The Lost Science of Money* by Stephen Zarlenga (Valatie, NY: American Monetary Institute, 2002).

The "Earthship," designed by architect Michael Reynolds (above), shows the potential for meeting our needs sustainably. Built out of tires, bottles, cans, and dirt, such houses don't use outside power, produce sewage, or pump water out of the ground—but they still offer all the comforts of home (below).

AP PHOTO/ERIC DRAPER (TOP) AND NICOLE HAND (BOTTOM)

the latter become easy prey to the predatory practices of Wall Street institutions that celebrate a sociopathic culture of greed and material excess.

Bank lending at interest isn't the only way to create money, nor is it the most preferred from a public interest perspective. There have long been calls from influential economists, politicians, and even U.S. presidents, most famously Jefferson, to replace the private issuance of credit-money with a system by which a democratically accountable public institution creates debt-free money. The public institution would create this money with its own accounting entry and then spend it into the economy to fulfill a public purpose. For example, it might pay down the federal debt or invest in mass transit infrastructure, solar technology, or public education. Under this method important public needs can be met without either taxation or loan repayment and without the usual expansion and contraction of the economy that results from the expansion and contraction of credit. The issues and options are examined at length in a number of important but lesser known books available only from their publishers, including Joseph Huber and James Robertson's *Creating New Money*; Ellen Hodgson Brown's *The Web of Debt*; and Stephen Zarlenga's *The Lost Science of Money*.

The common objection to such proposals is that giving politicians the power to create free money will lead to runaway inflation. This argument is a bit disingenuous given that the rate of inflation under our present private money system, if calculated by the methodologies in place in 1980, is actually running at a rate of between 12% and 14% (See www.shadowstats.com/alternate_data). Yes, the official inflation figures are doctored for political reasons to hide the real extent of current economic mismanagement and the rate at which wages and social security payments are falling behind the increasing cost of living.

The risk that government might fuel inflation by abusing its money-creation powers can be largely eliminated by placing the power to decide how much new money to issue in the hands of a government-owned version of the Federal Reserve that might function as an independent fourth branch of government much like the judiciary. The power to decide how to spend the government-created money would continue to reside solely with Congress as part of its overall power to authorize federal spending. This separation would substantially remove the motivation to abuse the money-creation power.

The potential to mismanage the money supply is always present, no matter how the system is designed. The advantages of public money issuance include lower taxes, the possibility of eliminating the federal debt, no growth imperative, and a more equitable distribution of wealth. Although such a proposal would elicit deafening screams from bankers, in the current context their credibility is low and there is little public sympathy for their tender sensibilities.

Economic Agenda for a New Administration

When Barack Obama takes the oath of office on January 20, 2009, he will face the imperative to bring forth, within the span of his first term, a new economy equal to the social and environmental challenges of the twenty-first century. Having won the election with a promise of change, it will be a moment of opportunity to set the nation on a new economic course. Here is my suggestion for the announcement he might make to a nation eager to rally around a new leader with a positive vision:

My administration has come to office with a mandate for bold action at a time when our most powerful economic institutions have clearly failed us. They have crippled our economy, burdened our governments with debilitating debts, divided us between the profligate and the desperate, corrupted our political institutions, and threatened destruction of the natural environment on which our very lives depend.

The failure can be traced directly to an elitist economic ideology *(continued on page 70)*

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that says if government favors the financial interests of the rich to the disregard of all else, everyone will benefit and the nation will prosper. A thirty-year experiment with trickle-down economics that favored the interests of Wall Street speculators over Main Street businesses and working people has proven it doesn't work. We now live with the devastating consequences. It has given us a disappearing American middle class and a crumbling physical infrastructure; weakened our schools; left millions without health care; made us dependent on imported goods, food, and energy; increased our burden on Earth's living systems; and created an often violent competition between the world's peoples and nations for Earth's remaining resources.

Wall Street has become so corrupted that its major players no longer trust one another. The result is a credit freeze that is starving legitimate Main Street businesses of the money they need to pay their workers and suppliers. Pouring still more taxpayer money into corrupted institutions won't fix the fundamental problem.

Corrective action begins with recognition that our economic crisis is, at its core, a moral crisis. Our economic institutions and rules, even the indicators by which we measure economic performance, consistently place financial values ahead of life values. They are brilliantly effective at making money for rich people. We have tried our experiment with unrestrained greed and individualism. Our children, families, communities, and the natural systems of Earth have paid an intolerable price.

We have no more time or resources to devote to fixing a system based on false values and a discredited ideology. We must now come together to create the institutions of a new economy based on a values-based pragmatism that recognizes the simple truth that if the world is to work for any of us, it must work for all of us.

We have been measuring economic performance against GDP, or gross domestic product, which essentially measures the rate at which money and resources are flowing through the economy. Let us henceforth measure economic performance by indicators of what we really want: the health and well-being of our children, families, communities, and the natural environment.

GDP is actually a measure of the cost of producing a given level of human and natural health and well-being. Any business that sought to maximize its costs, which is in effect how we have managed our economy, would soon go bankrupt. We will henceforth strive to grow the things we really want, while seeking to reduce the cost in money and natural resources.

I call on faith, education, and other civic organizations to launch a national conversation to identify the indicators of human and natural health against which we might properly assess our economic performance, taking into account what we know about the essential importance of equity, caring communities, and the vitality, diversity, and resilience of nature to our overall physical and mental health and well-being.

No government can resolve the problems facing our nation on its own, but together we can and will resolve them. I call on every American to join with me in rebuilding our nation by acting to strengthen our families, our communities, and our natural environment, to secure the future of our children, and to restore our leadership position and reputation in the community of nations.

Like a healthy ecosystem, a healthy twenty-first-century economy has strong local roots and maximizes the beneficial capture, storage, sharing, and use of local energy, water, and mineral resources. That is what we must seek to achieve, community by community, all across this nation, by unleashing the creative energies of our people and our local governments, businesses, and civic organizations.

Previous administrations favored Wall Street, but the policies of this administration will favor the people and businesses of Main Street—people who are working to rebuild our local communities, restore the middle class, and bring our natural environment back to health. Together we can actualize the founding ideals of our nation as we restore the health of our nation and its economy.

- We will strive for local and national food independence by rebuilding our local food systems based on family farms and environmentally friendly farming methods that rebuild the soil, maximize yields per acre, minimize the use of toxic chemicals, and create opportunities for the many young people who are returning to the land.

- We will strive for local and national energy independence by supporting local entrepreneurs who are creating and growing local businesses to retrofit our buildings and develop and apply renewable energy technologies.
- It is a basic principle of market theory that trade relations between nations should be balanced. So-called "free trade" agreements based on the misguided ideology of market fundamentalism has hollowed out our national industrial capacity, mortgaged our future to foreign creditors, and created global financial instability. We will take steps to assure that our future trade relations are balanced and fair as we engage in the difficult but essential work of learning to live within our own means.
- We will rebuild our national infrastructure around a model of walkable, bicycle-friendly communities with efficient public transportation to conserve energy, nurture the relationships of community, and recover our farm and forest lands.
- A strong, middle-class society is an American ideal. Our past embodiment of that ideal made us the envy of the world. We will act to restore that ideal by rebalancing the distribution of wealth. Necessary and appropriate steps will be taken to assure access by every person to quality health care, education, and other essential services, and to restore progressive taxation, as well as progressive wage and benefit rules, to protect working people. These policies are familiar to older Americans because they are the policies that created the middle class, the policies with which many Americans grew up. They were abandoned by ideological extremists to the detriment of all.
- We will seek to create a true ownership society in which all people have the opportunity to own their own homes and to have ownership stakes in the enterprises on which their livelihoods depend. Our economic policies will favor responsible local ownership of local enterprises by people who have a stake in the health of their local communities and economies. The possibilities include locally owned family businesses, co-operatives, and the many other forms of community- or worker-owned enterprises.

My administration will act at the national level to support your efforts to advance these objectives at the local level by engaging in a fundamental reordering of our national priorities.

Because the world can no longer afford war, the foreign policy of this administration will build cooperation among people and nations to eliminate terrorism and its underlying causes; resolve conflicts through peaceful diplomacy; roll back military spending and demilitarize the national economies of all nations; restore environmental health; and increase economic stability. We will work to replace a global system of economic competition with a global system of economic cooperation based on the sharing of beneficial technology and the right of the peoples of each nation to own and control their own economic resources to meet their needs for food, energy, shelter, education, health care, and other basic needs. We will work to protect the rights and health of working people and the environment everywhere.

An unprecedented concentration of power in transnational corporations that owe no allegiance to any nation, place, or purpose undermines democracy, distorts economic priorities, and contributes to a socially destructive concentration of wealth. The only legitimate reason for a government to issue a corporate charter giving a group of private investors a legally protected right to aggregate and concentrate economic power under unified management is to serve a well-defined public purpose under strict rules of public accountability.

There will be no government bailouts of failed corporations during my administration. Any private corporation that is too big to fail is too big to exist. We will institute vigorous anti-trust enforcement to break up excessive concentrations of economic power and restore market discipline. Because absentee ownership invites irresponsibility, we will create incentives for publicly traded corporations to break themselves up into their component units and convert to responsible ownership by their workers, customers, or small investors in the communities in which they are located. Through a public legal process, we will withdraw the charter and force the dissolution of any corporation that consistently fails to obey the law and fulfill a legitimate public purpose.

There is no place in a life-serving twenty-first-century economy for financial speculation, predatory lending, or institutions that exist primarily to engage in these illegitimate practices. We will act to restore integrity to Wall Street by rendering its casino operations unprofitable. We will impose a transactions tax, require responsible capital ratios, and impose a surcharge on short-term capital gains. We will make it illegal for people and corporations to sell or insure assets that they do not own or in which they do not have a direct material interest. The brain power and computing capacity now devoted to trading electronic documents in speculative financial markets will be put to work solving real social and environmental problems and financing life-serving Main Street enterprises that create living-wage green jobs.

To meet the financial needs of the new twenty-first-century Main Street economy, we will reverse the process of mergers and acquisitions that created the current concentration of banking power. We will restore the previous system of federally regulated community banks that are locally owned and managed and that fulfill the classic textbook banking function of serving as financial intermediaries between local people looking to secure a modest interest return on their savings and local people who need a loan to buy a home or finance a business.

And last, but not least, we will implement an orderly process of monetary reform. Most people believe that our government creates money. That is a fiction. Private banks created virtually all the money currently in circulation when they issued a loan at interest. The money is created by making a simple accounting entry with a few computer keystrokes. That is all money really is, an accounting entry.

Many years ago our government gave private banks the exclusive power to create money through the issuance of debt. This means that someone has borrowed and is paying interest to a private bank for virtually every dollar in circulation. The more our economy expands, the greater the debt owed to the bankers who create the money essential to economic exchange.

This makes banking a very profitable business, but it creates inherent economic instability as credit expands and contracts. Furthermore, because banks create only the principle loaned, but not the interest, the debt-money system creates an imperative for perpetual economic expansion to generate new loans to create new money at a sufficient rate to allow borrowers to pay the interest due on their loans. This means the economy must grow to keep the money supply from collapsing and assures that as a nation we are mired in ever-growing debt.

U.S. household mortgage and credit card debt stood at $13.8 trillion in 2007, roughly the equivalent of the total 2007 GDP, and much of it was subject to usurious interest rates. The federal debt inherited from the previous administration stood at $5.1 trillion in 2007, before the Wall Street bailout was approved, and it cost taxpayers $406 billion a year in interest alone, the third largest item in the federal budget after defense and income transfers like social security. This debt hamstrings the government and places an intolerable burden on American families that undermines physical and mental health and family stability. It also creates a massive ongoing transfer of wealth from the substantial majority of households that are net borrowers to the tiny minority of households that are net lenders. This engenders a form of class warfare that has become a serious threat to the security of America's working families.

There is another serious consequence of giving control of our money supply to Wall Street. When Wall Street banks stop making the accounting entries needed to fund Main Street, the real economy collapses, even though nothing has changed in terms of willing workers with needed skills, the needs of our families, physical infrastructure, or natural resources. The economy stops solely because no one is making the necessary accounting entries to allow real businesses to function. We cannot allow the moral corruption of Wall Street to bring down our entire economy, indeed our entire nation.

My administration will act immediately to begin an orderly transition from our present system of bank-issued debt-money to a system of public issuance. To this end I have instructed the Treasury Secretary to take immediate action to assume control of the Federal Reserve and begin a process of monetizing the federal debt. He will have a mandate to stabilize the money supply, contain housing and stock market bubbles, discourage speculation, and assure the availability of credit on fair and affordable terms to eligible Main Street borrowers. We will use public issuance to fund economic stimulus projects that build the physical and social infrastructure of a twenty-first-century economy to the extent consistent with our commitment to contain inflation.

By recommitting ourselves to the founding ideals of this great nation, focusing on our possibilities, and liberating ourselves from failed ideas and institutions, together we can create a stronger, better nation that secures a fulfilling life for every person and honors the premise of the Declaration of Independence that every individual is endowed with an unalienable right to life, liberty, and the pursuit of happiness.

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This is a moment more crucial than the situation Franklin Roosevelt faced when he assumed the presidency in 1933. In addition to dealing with an economy in steep decline, President Obama must address a potentially terminal environmental crisis and do it quickly. The solutions he puts forward must restore economic confidence and achieve a dramatic reallocation of resources to reduce our economy's overall environmental burden, while meeting the basic needs and improving the quality of life for every person. It is a daunting challenge, and half-measures will not suffice. He must act boldly to capture the momentum of the mandate of his first hundred days, guided by a vision of hope and possibility.

As we consider the need for bold initiatives by visionary leaders, we must also keep in mind the deeper questions that rarely find their way into political debates or public discourse: What is the source of true happiness and well-being? What is the purpose of economic life? What does it mean to be human on a living spaceship with finite resources? What is the human role in the great drama of evolution's continued unfolding?

These are deeply spiritual questions that call us to an epic quest of discovery and the great work of redesigning our societies to bring forth the world of our shared human dream. There is a need for people of faith to step forward to make these questions a part of our public conversation through initiatives such as the Network of Spiritual Progressives and through our churches, synagogues, mosques, and our other religious and spiritual institutions. ■