Economic Q&A

Value-added, Monetizing, Value-added monetizing phenomenon

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Excerpt from reply to DR of 12/31/06; Subject: Economic Questions

In an e-mail of 8/30/06 you quoted my paper and wrote as follows:

“The cornerstone of Brown’s economic program was his bold flat-tax proposal. This is a much misrepresented and demagogued idea that should be understood more as a value-added monetizing phenomenon, which by its nature partakes of an economic principle that is at variance with the perversely dubbed “progressive tax” regime.”

I don’t understand what a “value-added monetizing phenomenon” is? {Particularly: the meaning of “value-added” when it comes to a tax, and the meaning of “monetizing”} Can you help?)

The most fundamental rule of economics, in my view, is that one should think first in images of the actual human and material reality of economic enterprise, and only then add in the factor of money. As an exercise, let us track in our imagination the progress of a product as it emerges from the untapped resources of the earth through to final use. Before its extraction an untapped resource has no economic value as it merely lays there in the ground. Presently someone comes along comes to mine it, pick it, hunt it, fish it, pump it, cut it down, doze it into a heap, or otherwise perform the task necessary to wrest it from the earth. When this raw material is gathered up into a form that is able to be offered on the market, it has become a “commodity”. Someone with a use for it in mind then will buy it as a commodity. The wood has been made more valuable by the logger in the sense that he has put work into transforming it from standing trees to logs ready to be picked up for other uses at the landing. This net increase of value is “value-added”.

It may happen that the party that shows up to haul away the logs wants them for personal firewood, the additional processing for which he will do himself. This buyer then becomes the final “consumer”. In this case there was only one value-added increment between unrealized potential in the earth and end product.

More commonly the party that shows up to purchase the logs does not want them for final consumption, but wants to process them into an intermediate product; a more refined commodity, if you will. He may, for example, be a lumberman looking to buy saw logs. He will pay a railroad to transport them to his mill, where he intends to saw them into lumber. From there a yard will buy the lumber, hire a trucker to transport it to their location, and place it on racks where it is more accessible to those who need lumber for their enterprise. Let us further suppose that a contractor buys the lumber and makes it into a house, which is then sold to a consumer who wants to live in it. If we track wood from earth-to-log-to-train-to-sawmill-to-

truck-to-yard-to-contractor-to-consumer we can easily see that an increment of value has been added to the wood at each stage of the process. In economic terms, each of these quantum increases are said to be "net value-added", and the sum of all these steps is the "total value-added" of the product.

Note that we have talked through this example so far with no reference to money. Value-added refers only to the worth of the product in physical terms. Ideally, money enters the picture as a medium of convenience to facilitate the necessary exchanges. Each tradesman that performs his necessary task must be compensated according to his net "cost of production" (i.e. expenses incidental to performing his step in the process), plus receive a "profit" to cover his living expenses. For practical reasons these value-added increments must be expressed in monetary terms. It follows that these successive price increments (net value-added) accruing proportionally to each step in the process determine ultimately what a consumer would need to pay (total value-added) in order to maintain overall equity. I call this process "value-added monetizing".

"Monetizing" itself, then, is the process by which numerical value accrues to the physical value-added of a product as it works its way though the production process. In a narrow sense this figure is determined by the dynamics of equitable exchange in the marketplace. In a larger sense it is linked to the manner in which money enters into and is maintained within the market cycle.

To round out the above example, it should be noted that there is also an incidental cost of money that needs to be accounted for in this process. Its value-added is determined by the actual work that is performed by people to bring currency in some form into being, make it convenient to the point of transaction, and facilitate the phases of its handling. These are real and necessary costs measured in material resources and human effort, and have to be covered as surely as the labors of the logger, trucker, millwright, lumber dealer and carpenter (This should not be confused with the so-called "cost of money" expressed as "interest" attached to a bank loan).

Two Flows of Money – Market Cycle and the Monetization Cycle:

Money has two flows. The first is the "market cycle", which is the flow of money in the economy from the people that buy products ("consumers"), to the people that make them ("production factor"), and then back again. Money spent by the consumer covers the costs to

the producer of value-added work necessary to bring products into being. These funds are distributed as earned income to those who performed that work, which they, in turn, take home in the form of paychecks or profit, which is spent by them as consumers for more products. And so the market cycle goes round-&-round in a continuous loop.

The second flow is the "monetization cycle". It is necessary that money flow not only through the closed system of the market cycle, but also in and out of the system itself. As a rule, the money supply in a market cycle must continually expand and contract in order to accommodate changing levels of economic activity. This breathing in and out of money with respect to the economy, therefore, is absolutely essential to track the fluctuating call for currency required to support prices which are stable with respect to value-added work.

This two-flows process is analogous to the workings of a hydraulic loop with a filtered fluid reservoir attached. We can liken the productive factor in the economy to the pump, and the needs of the consumer as the end use where its energy is expended. If there are no leaks in the system then every drop of fluid medium that leaves the pump will show up at the device which it drives, and in turn find its way back at the pump. This is true as a matter of principle. It is a closed system. If money is not allowed to leak into or out of the market cycle, it too forms a closed loop in which its flow will transfer energy in an equitable and predictable manner.

In addition, it is common with closed hydraulic loops that they need a way to expand and contract their fluid supply according to the demands of their work cycle, and that this provides the opportunity to refresh the quality of the fluid. Likewise, the closed market cycle will need a way to expand and contract its money supply according to the level of economic activity it is called upon to serve, and this expansion and contraction provides the opportunity to refresh the quality of the money. This hydraulic analogy is illustrative, but limited. It differs from a market cycle in that its variables are materially predictable, but any market or monetization cycle is subject to the wildly capricious activities of people. In anthroposophical terms this is where the consideration of "rights" enters the picture. In common parlance, we would say that is it where the political process comes in.

The key to making any monetization scheme work equitably of its own accord is to set it up so that money follows and stays in proportion to the real value-added enterprise it is meant to facilitate. Ideally, this is to be done through a process of deliberate social

“governments”, “corporations”, private agendas in the guise of “market forces”, and other such specters.

The Question of “Government”:

The hyper-loaded term “government” has been introduced here, and so must be dealt with lest it short circuit the discussion. To be sure, a “political life” to administer the life of rights must arise, but this should be understood in terms of what people working in concert with each other for the sake of the commonweal do (Lincoln’s proverbial “government of, by and for the People”), as opposed to a soulless specter that stands over the populace and controls it for spurious ends. An association of people working together to perform the social functions necessary to the commonweal may (or may not) be called a “government”, but it is imperative to have an understanding of the word in a generic sense so that it does not poison the discussion.

For a perspective on this one could ask an old-time farmer what a “governor” is. He will point to a couple of brass balls attached to a lever mechanism whirling about at the top of his steam tractor (newer machines have less-visible equivalents). This is a device which is connected to the throttle, which in turn governs the supply of air/fuel mixture admitted to the engine. The whole linkage is designed such that it expedites the running of the tractor in a continuous manner up to its full potential, but protects it from revving out of control. The settings of the governor can, of course, be changed to fine tune the performance of the equipment, but it does not assume any other level of control. It does not “run” the tractor; the farmer continues to do that. When I use the term government (without irony) in relation to the monetization process, it is in this sense. Money is the air/fuel (spiritual/material) flow that the economic engine runs on. It needs to be governed in a way that is transparent to the social body it serves, but should not be used as an instrument of meddling or control by partial interests.

Two Loops of Monetization Cycle – Loan & Payback, Direct Monetization:

The monetizing cycle itself has two loops by which money can enter and exit the market cycle. Both originate and end with the association of individuals in the social body that has assumed the trust of performing the monetization task. Within the current system this

franchise ideally falls to persons in the Federal government. I would hasten to stipulate that vesting of the monetization process in government is “ideal” only within the limited and flawed context of the present system as currently conceived. This system itself must needs be redeemed to good purpose and optimal form if humanity is to move forward, economically speaking. Such sensible “reform” is necessary, not as any final resolution to the problem of money, but rather as a point of departure for humankind’s economic evolution; as the egregious features of the current system effectively block the quest for a true practice of brotherhood. Other opportunities and forms would unfold organically from there.

In the context of this stipulation, the first loop by which money can enter and exit the market cycle is via a “loan & payback” mechanism. By this method money is injected into circulation through loans for establishment of specific productive enterprises via the agency of banks. Equitable proportionality between an actual enterprise and the monetary injection which gives it life is maintained through socially enlightened discernment that guides the loan application process.

The second loop by which money can enter and exit the market cycle is “direct monetization” by the Federal government. This would tend to have the appearance of “government spending” as conceived of at present, but that is not an accurate expression in this case. The word “spending” implies the drawing down of a limited pool of money, which in turn must be replenished. “Monetization”, in contrast, proceeds out of the social franchise to create money “out of thin air”, so to speak. There is no limit to this reservoir of funds, and so government, as the monetizing agency, does not have to “find the money to spend”.

The Monetization Picture:

The responsibility for this function would proceed out of the Constitutional mandate “to coin Money” and “regulate the Value thereof” in the context of the government’s stated mission to “promote the general Welfare”.

The process would begin with the creation of a “monetization picture”. This is an amalgamated image of the aggregate of human enterprise in a given economic realm. One might visualize the gist of this process by imagining that one were a bird soaring over the nation and looking down at all the economic activity below; from farmers in the field, to miners digging coal, to truckers on the highway, to teachers teaching kids, to nurses caring for

patients, to waiters bussing tables, to firemen putting out fires, to bureaucrats administering government, and so for forth. Ideally, such an appraisal would include a great deal of economic activity not now considered chargeable, like for instance the caring of a mother for her child, the seeking of an artist pursuing his inspiration, or the pursuit of truth by two fellows having an electronic conversation through the internet. In the largest sense the efforts of people walking their true path of whatever form is a (nay, the) necessary part of moving life forward, and needs to be accounted for. It would be a survey in a manner of speaking of "all that makes the world go round".

Once formed, this picture would serve as a guide to the direct monetization. This is not to say that the government would pay for everything. Rather the people whose path it is to serve the social order through government would see as their duty the bringing alive of this picture through the morally-guided strategic injection of the lifeblood of money via the two loops of the monetization cycle as described above. Within the structure defined by the present U.S. constitutional system, the division of labor for this task would break down into three parts, according to the respective branches of government.

It would be the duty of the Legislative Branch to, in consultation with their constituents, draw up the monetization picture. This would entail gathering estimates of the needs, desires and resources of the country. Much of this would, of course, be predicated on the record of activity of the previous year, but the process also carries great potential for discretion as concerns anticipating, guiding and shaping the country into the future. This may sound like a tall order, but the financial system already performs a similar function now. They are obliged to do so to establish a basis for their own transactions, policies and projections. The problem with the current system is that this task is not performed in service to the people, but to the lords of usury-based finance. Its "projections" are not for the most part based upon the needs of human evolution, but on the pseudo-need of money to earn money. It is easy to scream at bankers and politicians for their perfidy (and who knows but that they don't deserve it sometimes), but under the present system they have limited leeway for how to act.

The monetization picture would essentially be legislated into effect. The process would commence in the lower chamber in the spirit conveyed by "All Bills for raising Revenue shall originate in the House of Representatives", and be ratified in consultation with the Senate. The result would be in the form of mandates expressed in physical terms (renovate this list of bridges), numerical tabulations that resemble today's budgeting process (except there is no

need to find “the money”, much less “borrow” it at usury), and social guidelines informing the loan application process (a primary tool for manifesting social values and intent).

It would be the duty of the Executive Branch to perform the tasks necessary to print and dispense the money. Presumably this would require working closely with the banks and other private financial institutions. This process would be guided by the requirements of the monetization picture. It would most decidedly not be the Treasury’s job to legislate, but they may bring in skills necessary to formulate, interpret and facilitate the monetization scheme.

The role of the Judicial Branch is to oversee the equity of the whole process.

Loan Satisfaction and Value-Added Taxation:

If there is a continuous pouring of money into the economic stream via the monetization process, there must be means to taking the excess back out. This is necessary for several reasons. The process of retiring excess currency provides the opportunity to inject new funds in the next fiscal cycle. This is necessary to maintain a social welfare base in the economy. It keeps alive the perpetual opportunity for new enterprise and the generation of increased value-added in service to humanity’s evolutionary aspirations. Finally, the retirement of currency keeps it from getting “old”; i.e. stagnant in unproductive corners. This is important to keep economic reckonings referenced to the monetary flow cycles of the here and now. Currency retirement through taxation provides the opportunity for the social order to maintain control of its monetization process. If money is merely put out there and left to perpetually circulate subject to a “market forces”, that is effectively an invitation for those with less than altruistic intent to progressively co-opt the process.

I realize that these thoughts are stated very broadly, but I don’t have the space to do them justice in this letter. They are the cutting edge of important principles that affect the economic order. It is my intent to expand the discussion to a more comprehensive level into the future.

This raises the question – “What are the mechanisms in practice by which the retirement of money can be expeditiously and equitably effected?” Basically there are two, and they correspond respectively to the dual loops of monetization cycle.

The quantity of money put into circulation via the “loan & payback” mode is self-regulated by payback of the loans. That is simple enough.

The quantity of money put into circulation via the "direct monetization" mode is regulated by "taxation". In practice this is more problematic. I would state here in the most emphatic terms – With respect to the activities of the Federal government, taxes do not pay for anything. The power to monetize does that. The Feds do not have to find money to do business. They hold the monetization franchise. That is to say, they have in their grasp a checking account with infinite reserves. Under such a circumstance, taxes in reality serve as an overflow device for the pool of money poured into the economy by direct monetization. In addition, if some loans fail, the reclamation of those monies is also rolled over into the taxation mechanism.

The pertinent question becomes, then, what manner of taxation would be most expeditious to employ? Before giving a specific answer to that question I would bring your attention to a pattern that is exhibited in the above enumeration of the principle of value-added and how that relates to the monetization picture. As value accrues to a product as it rises through the production hierarchy towards its ultimate destiny as a final product, it does so in increments which are expressed as value-added. Furthermore, money enters the picture as an increasing price of the product in the making as it passes from hand-of-tradesman to hand-of-tradesman through stages of the production process, and does so in equitable proportion to the value-added at each increment. The establishment of this step-by-step proportional relationship depends on there being a proper amount of money in circulation, and a spirit of equity in all transactions. The maintenance of this principle is the key to making money the servant of real-life economic activity, instead of having life serve money. I reiterate this because the key to effective and equitable taxation is to implement it in such a way that it is in harmony with the value-added monetization process. In principle, then, all taxation must be applied proportionally to the value-added base of economic activity.

This is nothing new. The European and Canadian taxing regimes are already based upon value-added (thought imperfectly so). There are two forms in which "value-added tax" can take on. One is to apply it as an income tax at a flat rate. This is the so-called "flat tax". The virtue of the scheme is that if the rate is assessed uniformly to all income, it is tantamount to applying it to all value-added. In order to remain truly "flat", the tax must be applied at a single percentage rate across the entire spectrum of value-added activity. This rate is calculated on the basis of what is required to retire the sum of money that comes into circulation through direct monetization, plus roll-overs from defaulted loans, plus increases or

minus decreases in the money supply. As such the flat-tax, properly applied, is an integral feature of the direct monetization principle. That is why I call it a "value-added monetizing phenomenon".

The second possible mode of value-added taxation is the "sales tax". This is assessed at the point of sale of the final product. We are familiar with a form of the sales tax as applied at retail outlets. It is value-added in concept because the final price of any item is by definition the sum of value-added increments that were inherent in its bringing it to market. The sales tax is spoken of favorably by Steiner at one point, but I do not interpret that to mean that he deems it the only option.

The Challenges of Loan Satisfaction and Value-Added Taxation:

The basic challenge of the loan satisfaction process is to apply sufficient discretion such that the loans are actually able to be retired out of the proceeds of the enterprises for which they were issued. Within a non-usury monetization process, this is necessary, not to keep the system from going "bankrupt" (that can't happen), but to assure an equitable orderliness to the process. In real life there can arise situations where loan repayment is delayed excessively, or never consummated at all. This can happen for reasons other than default. They may, for example, be forgiven for humanitarian considerations or overarching social priorities. Whatever the case, such sums are effectively rolled over into the category of direct monetization, which will be redeemed within the context of value-added taxation.

The basic challenge of a flat-tax regime is to collect it without impinging on the private affairs and personal freedom of the taxpayer. The process entails a reporting of one's personal income. For a person not in business, this would basically be a number. For those that would bundle their economic existence into a household, this would mean a bundling of each person's number. For a those involved in enterprise it would mean reporting of costs and profit associated with value-added. It does not, however, inherently require the reporting of personal data beyond identifying oneself. Ideally people participate in the monetary economy on a voluntary basis, so as terms for a minimum requirement to make it work, this may not be deemed unreasonable or unnatural. The process can be done as a routine bookkeeping procedure with minimum intrusion in the course of managing personal finances or doing business. The advantage of the flat-tax (as opposed to sales tax) is that it lends itself

to a comprehensive coverage of all monetary manifestations of value-added as a matter of course, without gaps or overlap. A practical rub enters in that some sort of interface is required to give oneself an identity within the system. This may be in the form of a tax ID, social security number, or perhaps one's name, or the name of one's enterprise. It can be argued that such a point of contact is a minimum requirement of a just and orderly social regime in any case.

On the face of it the sales tax is less intrusive because it can be paid anonymously, but it has its own complications. There is an issue of equity in that the burden of collecting and remitting taxes falls unevenly upon those who are in the retail business. A further complication arises in that the final use of some products is actually a cost for some production process. For example, virtually any hardware store sells its wares both to final consumers, and to tradesmen for whom the items represent not consumption, but a production cost. If these production items are not separated out, the value added represented by those items will be covered redundantly when in the final purchase price for those items. There is a fair amount of paperwork required to keep this all sorted out, and this is intrusive in itself. The division of usage in real terms tends to become muddled in any case, so consequently gaps and overlaps will tend to arise in the coverage of the value-added base.

In the final analysis, for matters of taxation the devil is in the details. The ultimate challenge is to collect taxes in such a way that compliance is completely voluntary. To be sure, taxation in the current mindset is firmly linked with the idea of compulsion, but it cannot remain that way if we are ever to have a truly free society. They key to making that happen is to establish the whole monetization scheme on an equitable principle that is transparent to everyone, and to formulate whatever taxing mode is utilized as an integral part of that system. People will comply with something they can see and resonate with.

This proposition will, predictably, be met with the assertion that voluntary compliance will never work due to the untrustworthiness of human nature, but I would question that. We human beings have virtually all grown up in a system that has been a horror of inequity. What would people be like if they were nurtured in a culture that was morally consistent? Does anybody know? Why should we assume the worst? The monetizing and taxing system we have now is a monster of provocation, intrusion and dis-economy, yet out of their own good nature people tend to exhibit a high degree of willing compliance even now. I would invite anyone to stand by most any retail counter and witness it in human reality. There is a great

deal of generosity and warmth exhibited in the course of even those most ordinary of exchanges. We tend to forget the witness that could be had from what is routinely right before our eyes.

I would reiterate here that this rumination does not purport to be any final answer to the economic problem. It is merely a rationalization of the conditions as they exist right now, and as such constitute a prospective starting point for a new economic evolution into the future. In the course of such I would anticipate that humankind's economic activities will take on a character such that they become progressively more elegant and symbiotic with the natural order. As such, they will be effectively a going back to the Garden. Within such a context considerations associated with money, including monetization and taxation, will take on new character and meaning. The devil hiding in the details might just flee if it were obliged to work in the Light.

The American Monetization and Taxation System:

Americans virtually do not understand the concept of value-added monetization. I attribute this to the fact that our economic paradigm is rooted in usury, which effectively puts at the center of our thought process the arbitrary mandate for money-making-money, rather than the natural principle of money-emitting-from-life. The two loops of the monetization cycle exist in the Federal Reserve System, but in a corrupted form. The seed of monetization is so-called "high-powered money", which is the money that the Federal government itself "borrows" into existence from the banking system in "loan-&-payback" transactions tainted by usury, and then spends into circulation by a process that resembles direct monetization. It would be direct if the Treasury had written the money itself, and not "borrowed" it from a private corporate entity. This high-powered money then becomes the basis by which an inverse multiple of the reserve in a so-called "fractional reserve" system, can be issued as "credit money" through "loan-&-payback" transactions to all other "borrowers". These "loans" are then subverted by a usury rider in the manner of the "debt-money" transaction.

The flat-tax idea has made its appearance on the American political scene. It was introduced through Presidential bids by Democrat Jerry Brown in the early '90's, and reiterated by Republicans Steve Forbes and Dick Army later in that decade. Since then it seems to have gone out of fashion. One reason is that in the American mind the concept was

little more that another political ruse, and it became burdened with gimmicks (generally in the form of exemptions, tax credits or penalties) that would tend to destroy the balanced monetary correlation with economic reality the flat tax is suited to maintain. The American alternative to the flat tax is the so-called "progressive income tax". This hyper-jerry-rigged scheme is an engine of inequity that provokes each sector of the electorate to press for its own advantage.

Tale of Two Transactions:

The question that begs to be asked is "How did we come to this?" The key to understanding the answer lies in understanding the difference between the "Common-Sense" and the "Debt-Money" loan/payback transactions as enumerated in my Convocation address.

Concerning this you wrote:

In the "common sense" transaction, you write that the charged one-dollar interest "will come out of your pocket from funds that actually come into your possession."

In the "Debt-Money" transaction, you write that the extra dollar of interest can "only" come, when it is paid, "out of the principle of someone else's 'loan' during its interim."

I don't understand this!

Why could the extra dollar of interest in the "debt-money" transaction not come, like the one-dollar of interest in the "common sense" transaction, "out of your pocket from funds that actually come into your possession"?!

I don't see the difference.

In the debt-money transaction, I borrow $10 and spend it somehow or somewhere and, later, funds come into my hands from somewhere or other and I pay back the bank the $10 and also give them the $1 interest, unless I default. In each of the two types of transaction, the "loan" enters "ten dollars into circulation." In each case, when the $10 is repaid, if it is, that $10 goes out of circulation, momentarily at least. Also, in each case, when the interest of one-dollar is repaid from funds which have subsequently come to one, perhaps from being paid for wages one performed or from a profitable selling of something, the same essential result is occasioned, is it not? In the common sense transaction, you call it zero-sum, though

the lender gets an extra dollar for his trouble. (How is that zero-sum, and how is the debt-money transaction any different, vis-a-vis the extra dollar?)

These are excellent questions. They state well the thoughts many experience when presented with the two-transactions comparison. The key to understanding the difference between these two examples is to realize that, while in a superficial sense they may look essentially like the same transaction (only between different parties), they are not the same transaction in principle. They are diametrically different processes altogether. The "common-sense" transaction is an exchange between people that takes place within a realm of things that already exist tangibly, and are merely being passed around. In the "debt-money" transaction the dollars are coming into and going out of existence as they cross the desk between you and the banker. It is the superficial sameness of these transactions that is as the root of the whole confusion concerning our economic order. Can you see that for yourself in your questions? Let us look at them a bit closer.

Think of the money involved in the "common sense" transaction case as pre-existence paper; i.e. one-dollar bills than one can hold in one's hand. I loan you ten one-dollar bills, and come next payday, you return the ten bills plus an extra paper dollar as an agreed-upon interest charge. It helps often in matters concerning money to think in an analogy that illustrates the same process, but does not involve money as such. For example, suppose I harvest my apples first and loan you ten of them, and you agreed to repay to me the ten apples, plus an extra apple for my trouble, when your apple harvest comes in. This is all very upfront and sensible, and not many people could be confused by the transaction. There is something about introducing money into an exchange process that causes the mind to flip out. The only difference between the common-sense monetary and the apple transactions is that, in the case of the former we are exchanging pieces of paper called dollar bills, and in the second pieces of produce called apples.

The money involved in the "debt-money" transaction, on the other hand, does not pre-exist as one-dollar bills one can hold in one's hand, but is created as abstract credit when the banker writes the check. This can be very bewildering because if one were to observe the transaction through a surveillance camera on the wall, it would look virtually identical physically. The banker would be this friendly human being that is trying to help you tide over your cash flow situation with a loan, just like me. What is more, instead of actually writing a check, he could make an entry of the loan on his books and hand you ten one-dollar bills,

thereby mimicking precisely our transaction. Furthermore, when the time arrived to pay off your “loan”, you could hand him ten one-dollar bills, plus one extra to bill cover the “interest”, out of your pocket to satisfy it. What could be more identical than that?

The difference between the two transactions is not what is happening physically on the surface, but what is transpiring behind it. Money, even in its physical form, is always an abstract representation of something going on in the background. This is true for both transactions, but the “common-sense” scenario amounts to a shuffling of cash after it comes into circulation, while the “debt-money” transaction is an illustration of how that cash comes into and goes out of circulation in the first place. Note that even if the banker hands you cash instead of a check, he had to have made a bookkeeping entry in the background to assign to those bills some value before he could legally pass them (unless of course, he really was acting in the capacity of a personal friend and loaning you the money out of his wallet).

The upshot of all of this is that these are fundamentally different transactions, but in the financial culture of the present we describe the various steps involved in identical words and phrases. This is the very font of the confusion in the financial realm. The net effect of the process is to inculcate into economic man a veritable slight of mind that in the light of mundane daylight observation he cannot see. The rest of the financial culture builds off of this obfuscation, resulting in an economic paradigm which is straight out of Alice in Wonderland. Once the trick of the tale-of-two-transactions is missed, the deceptions insinuates itself into the all phases of the social order and inner consciousness, resulting in the world-turned-upside-down that we currently live in. This is admittedly a very broad assertion, and is likely the sort of thing you are referring to when you write:

I’m going a little crazy here, Rich, with your writing, in this respect: It is so, so substantive and so eloquent…BUT…you seem to this reader to be continually commenting upon the situation WITHOUT helping at least this reader to understand the situation itself!

I appreciate your frustration about this completely, but to understand what we are dealing with we must at once learn to look at the Economic Life both in narrow personal and broad social terms. That is why, for example, Steiner uses examples that are very specific to individual transactions, hypothetical or not, to introduce his economic concepts, but then says – “It is only the whole earth which, as a body economic, can truly be compared with an

organism", and a few lines later states – "But as economists, what we really need is an understanding of the social organism in its totality." Elsewhere he states – "We must try to think our way into the economic process." The whole economic matter is paradoxical at every turn, and we must attempt to transcend that paradox if we are to work with it. The crux of attaining a true economic life is not to give pat answers to uni-dimensional questions, but to grow in consciousness. In a book on money I read not long ago (one of Budd's actually), the opening line is – "Written across the worried face of modern humanity is the simple, stark question: – What is money?" One would think that after millennia of wrestling mightily with this very question, someone, be they economist, financier, philosopher, scientist, theologian, enlightened layman or saint would have come up with a satisfactory answer. The problem is that the question "What is Money?" is much like the question "What is Life?" Has anyone come up with the bumper sticker for that one?

What this all means is that, unless we fully appreciate the paradoxical nature of matters monetary, we are always be "going a little crazy". I by no means mean to denigrate your critique. If fact I have heard that same complaint often, and in truth am obliged to take myself to task for whatever degree my delineation of the topic has in any way been gratuitous. That said, also understand that the Convocation speech was composed for an event that was hyper-philosophical in its tenor, and that expressed in literary form. Its intent was to plant a seed, but then specifically not explain. The Transcendentalist's idea of the very highest form of expression is poetry, or at least prose that is poetic. They were not obsessed with making matters clear with mundane explanations. If we are honest, that is what we love them for. Their work was evocative of spirit. It doesn't so much inform as it elevates. Would we honor them otherwise? Thus, it might be said, that is the value of their work.

<u>But</u>, one might also aver, their strength constitutes ironically the limitation of their expression. What is more, one might say that to resurrect the School of Philosophy, their expositions must be grounded in economic reality in a post-atomic age. That, at least so far as I could render it, was specifically the intent of the talk. That very fact that the address was constructed around something so lucre-oriented as the comparison of two loan transactions should make this evident. Had the tenor of the speech been pedestrian, who would have even cared to listened?

As a personal exercise, I once rewrote the Gettysburg Address in the most mundane terms. Why, after all, did Lincoln say "fourscore and seven" instead of "eighty-seven"? Was he

trying to confuse his audience? As you might guess, my rewrite killed it, and is it any stretch at all to imagine that had his purpose been "clarity", his sparse remarks for the occasion would have been forgotten as soon as they were uttered? The form of language is in the end as important as its content, and there is a place for each style of idiom. We as a society have lost a great deal to the Readers-Digestization of our culture. Even the Bible is rendered in street language (I don't say there is not a place for that). Is not the essence of art elevation of form? Why would any artist paint if he could just explain what he wanted to say? Why would any vocalist sing when he could save the trouble and explain the lyrics? Why would Lincoln say "fourscore and seven" when he meant "87"? I trust you get my point. There are occasions when it is incumbent upon the audience to reach for the expression, and times when it is the other way around. I trust that my work will be found to be whole and balanced in the end.

All this said, your frustration still stands as valid, and it needs a response, which as fully as I can provide in a few brief pages, this letter is. The nature of my work is that I write letters in response to specific requests and perceived needs. This goes back to when I bought my first word processor in the late '80's to facilitate corresponding with Paul Wellstone. I had done virtually no writing in my life prior to that, and so had no inkling that I even had an inclination or a knack for doing so. I still do not call myself a writer. Rather, I write when I have something to say. The world is already choked with a surfeit of verbiage, and it doesn't need my help in adding to the glut. The Convocation address was a very significant document in my work. It planted a seed of consciousness, intentionally expressed in a somewhat "high-minded" idiom, that I am now obliged to make accessible in a mundane sense. Actually, I have done a fair amount of this already, although you may have no way of knowing that. Notwithstanding, there is still a long, long way to go. The topic of economics is merely the point of entry to something vast, and my life is dedicated to going the distance. The journey is actually much longer than you might imagine from what you have seen so far. It is, in a manner of speaking, as long as life.

For the common-sense transaction, when you pay me the dollar of interest, it does <u>not</u> go out of circulation. It merely goes to me and I get to spend it; just like with the eleventh apple, I get to eat it. The "debt-money" transaction is not a physical loan-&-payback, but is instead a monetization process. When that dollar of interest is "repaid", it <u>does</u> in fact go out of existence. Therefore, to be consistent in my example, I have to account for that. In the first transaction, I merely had to account for how it went from pocket-to-pocket. In the

second I had to account for how it came into circulation (i.e. through the principal of someone else's existing "loan"), since in that example it was being extinguished and will have to be replace (via the principal of another "loan"). Now, it is true that in "paying-back" the bank "loan" you could have reached into your pocket and handed a dollar bill over to the banker, but that similarity of appearance does not change what happened to the dollar in monetary value that it was a mere physical representation of.

Getting back to your specific questions, it is not true that "In each of the two types of transaction, the "loan" enters 'ten dollars into circulation'." That only happens with the bank loan. Conversely, it is also not true that "In each case, when the $10 is repaid, if it is, that $10 goes out of circulation." That too only happens with the bank loan.

I describe the common-sense transaction "zero-sum" because it does not cause a net addition or subtraction of currency to the monetary system as a whole. I often describe the "debt-money" transaction as "less-than-zero-sum", because it does not account for itself. With the payment of the so-called "interest" (more accurately "usury), there is created a net shortfall in the money supply, and in turn the finances of people, that has to be made up somewhere if the economy if people as individuals, and the economy as a whole, is to continue to cash-flow. Where does this shortfall have to be made up? There are only three places it can come from. The first is if for oneself to "borrow" more money into circulation. The second is to get hold of the principal money put into circulation via somebody else's "loan" in its interim. The third is to take advantage of artificial exchange rates between economies and run up a so-called "positive trade balance" (the net effect of which is to transfer the onus to "borrow" to those bested in the so-called "balance"). All of these options are temporary expediencies that at best only stretch out and compound the fundamental dis-equilibrium, and postpone the problem unto a more terrible day of reckoning.

You continue:

You then say that the implications of the bank transaction "dictate that from dollar-one put into circulation…a cancerous…principle is introduced that is mathematically destined to compound until the socio/economic body it attaches to is utterly consumed." I don't understand this at all, and you don't explain it; you merely state it!

Let us 'do the math' on this one. I am going to lay out an example that is ridiculous in realistic terms, but should suffice to illustrate the point. Suppose that the Federal Reserve had been in existence at the time of the birth of Christ, and had issued as a money supply a single dollar bill backed by a 3% bond which was payable whenever it was called in as due by a bondholder. Imagine that the People had passed that dollar back and forth as currency until the present year, but now the bondholder was calling in the "debt" on the bond for the use of this solitary slip of paper. How much would the People "owe" the bondholder for the use of this single dollar? The answer is in excess of $58,000,000,000,000,000,000,000,000 dollars ($58 trillion, trillion). You can work this out yourself in about fifteen seconds on a scientific calculator. This is a ridiculous figure of course, but it illustrates the power of compound interest to eat up an economy, and it shows why the principle of "**Debt-Money" Cancer** cannot be compromised with any more than biological **Cancer** can be compromised with. If even a single "**Debt-Money"** dollar is allowed into the system, it will, given enough time, sow the seed for destruction of the entire economy and social organism just as surely as a single **Cancer** cell left behind will destroy a live physical body. It must be exorcised utterly, both in practice and in principle.

You say:

I have borrowed from a bank and repaid the bank the principal and whatever interest they have charged for the period of repayment and that is the end of it, once it is repaid.

That is <u>not</u> the end of it. You may get "paid up" in a personal sense, whoever "borrowed" the money into circulation that you latched onto the "repay" the "interest" on your "loan" has to scramble to make it up so he can recoup his principle, <u>plus</u> his "interest". Obviously, someone down the line has to go still deeper into "debt" at a minimum rate to keep the pyramiding "debt" structure going. Of course, these monies that I am talking about here are not really attached to single persons once they go into circulation. That is, soon after anyone spends "borrowed" funds into circulation, it becomes blended in an amorphous monetary pool, and loses its identity as to the specific source. To understand these individual transactions in terms of the economy, we must comprehend them as aggregate effects. That is why Steiner says – "But as economists, what we really need is an understanding of the social organism in its totality." The dollar I win through my exertions to pay the net usury embodied in my

personal bill has lost its identity with respect whoever may have brought it into the monetary pool. The net effect, though, persists in the aggregate, and takes a compounding human toll.

One of the illusions encouraged by the present system is that one can personally get “paid-up” with respect to the system. The “debt”, then, becomes the other person’s problem. A social stigma arises whereby those that have attained an appearance of financial solvency, by whatever happenstance, become judgmental of why others can’t do what they did.

The basic tension between the left and right wings of the political/religious spectrum can be attributed to this. The truth is that no one is ever really “paid up”. To start with even if you have “burned the mortgage” on your house, every time you buy a product or service there is figured into the price the wages, salaries and profits of manifold others that are still trying to pay for their house the second or third time in the hope that may eventually do the same. In the course of ordinary business it is true that “loans” are taken out and then paid back all the time. Indeed, the solvency of the system depends on that happening. The greater reality, however, is that the populace as a social body must go progressively deeper and deeper into “debt”. This fact is camouflaged under the rubric of “economic growth”, which under present conditions is a euphemism for “debt expansion”. The economy may in fact “grow” in a crass material sense (bombs dropped on innocents represent “economic growth” also), but it is forced to do so to keep rolling over the “debt” paper that has been attached parasitically to the dollar. On the national level the banking system still has a lien on the country as a whole, including your property and your very life, which is backed by the “full faith credit” and <u>force</u> of the Federal government (which is precisely what the war in Iraq is about, if anyone stopped to think about it). We are living in a casino-economy. We may be successful in improving our personal position in a relative sense, but there is no way of opting out. This has become true, not only for the U.S. economy, but after Bretton Woods, the world.

The horrific upshot is that brother is structurally pitted against brother in a less-than-zero-sum economic order that is global. More specifically, that means every person is arrayed, monetarily speaking, against every other person on earth. Parents are individually and generationally in such position that they are forced to work against the economic welfare of their progeny, even to acquire to bare material necessities of raising them. This is Catch-22 gone berserk. It is a matter of tragic bemusement to see the denizens of one generation crow about how the value of their homes has multiplied such that they can go into “retirement”. Who do they think are going to buy those same houses at a multiplied price, and have to

cover the cost two or three times in their mortgage to boot? The only answer there can be is that it will fall to their children's generation. Yet listen to how many adults hold forth in their political pontifications about how they are so concerned about not wanting their children's generation to inherit the "national debt". The thinking of even the most truly loving parent is so duplicitous on this wise that is leaves one aghast to behold it. The founding by any social order of its currency on the perverse principle of usury works economically against the practice of brotherhood, sisterhood, fatherhood, motherhood, friendhood or personhood in any form.

Monetary System as Inverted Pyramid:

You write:

Are you describing only situations in which one does not repay the loan? (If so, you don't state that, and it is not clear, at least to me…)

The system does in fact depend on people being able to pay off their loans, or at least roll them over. Otherwise the economy would come to a halt, but this is not a factor that is accounted for uniformly. To understand the variations of the loan default question it is helpful to picture the Federal Reserve system as a pyramid that, due to usury, is inverted, and therefore tottering on its tip. Talking in terms of a structure that is upside-down can be confusing, so permit me to establish a convention of reference for doing so.

We can describe a normal pyramid as consisting of a stacking of strata, starting with a wide bottom, narrowing as it goes up, and culminating at a tip (picture Giza). For my inverted image I will call the physical tip the "base stratum" of the system, and those that are stacked on top of it as progressively "higher strata", until one gets to the "top stratum". To be sure, there is a counter-intuitive factor that enters here, but thinking through the options will reveal that a similar problem enters with respect to any approach to the matter that might be adopted. This fact is in itself quite illustrative of the problem that the introduction of usury into the monetary system has caused. It always adopts common sense thought constructs, but inverts their meaning into a through-the-looking-glass illusion. It hides this obfuscation by co-opting the language which would normally used to describe common sense reality. That

precisely is why people have such a difficult time in understanding contrasting meanings of the two simple transactions given in my Convocation address. The problem is compounded immeasurably as the thinking moves into more complex situations. In the end, the language becomes so corrupted that it cannot be effectively used to communicate clear thought. That is were the importance of thinking in imagery comes in. I hope this isn't too confusing. It is very much part of the intent of my work to construct a lexicon of graphic imagery to go with my words, but that takes more time than I have at present. It will have to wait. In the meantime, let us do the best we can with a word image.

The pyramid form when resting on its widest strata is one of the strongest and most stable forms imaginable in the physical universe. When one inverts the structure, however, it becomes extremely unstable in that it has a tendency to totter over in any direction, and/or crush its base strata (i.e. the tip) under its weight. If a structural failure should occur in or near the pointed base strata, it threatens the integrity of the structure as a whole. If one were to happen in or near the wide top strata, it tends to merely mess up the surface, but not threaten the solidity of the mass. If the structure is a dynamic living system, it can repair injury to the top strata, and then continue its growth. There comes a point, though, where the mass becomes piled up too high, and the inherent weakness of the base structure causes it to self-destruct. That threshold is catastrophic, but the time of its crossing is difficult to predict, so one is tempted to proceed blithely on one's way in denial of what is happening, hoping that the situation will hang together for the length of one's tenure; thereby leaving the train wreck for those who come after.

I would issue a caution here. Specific analogies, metaphors and images are always abstractions of reality, and so have their limitations. Various other illustrations could as well be invoked, depending on the idea one is trying to express. In any case, they are most assuredly not "laws" that govern reality, however deftly they are drawn. It is necessary to keep this perspective in mind to keep the image leavened, and not collapsing back into a new dogma. I am reaching here for something that is difficult to put in words. In my interpretation, this lies at the heart of Steiner's concept of 'associativity'. It is about keeping thoughts floating and pulsing in relationship to one another, and not hardening. This was the feeling behind much of my Concord address, especially those parts that people found difficult to understand. I leave the matter at that for now, and hope I am making some sense.

Now let us apply this inverted-pyramid image to the Federal Reserve system. The high-powered money, referred to in the text above constitutes the base stratum. This is money that comes into being via "borrowing" by the Federal government. The deficit-speak that is ubiquitous in the media is a reference to these funds (currently some 8.7 trillion). A situation arises, however, in that the amount of the money brought into circulation in this manner exceeds by a wide margin what is needed for an entire money supply, much less the fractional base of one that leaves headroom to be filled out through private "borrowing". Consequently, by far the greater portion of the bonds the Fed is holding to secure the government's "debt" are sold to the "public" through "open market operations" under the auspices of the "open market desk" of the Federal Reserve Bank of New York. The net effect is to take excess money out of circulation, and to put bonds "backing" the Federal "debt" into the portfolios of banks, foreign governments, and other high-powered buyers. These bonds (i.e. claims against the American economy) then become the paper "reserve" backing the currencies of other countries.

This monetary tip of the inverted pyramid is the so-called "fractional reserve" that theoretically forms the basis of the monetary system. If this fails, so the thinking goes, the whole structure will come down. This is true in a strictly theoretical sense, but questionable in actuality. In the financial universe people believe that this is "bottom line" reality, and in a fear-based economic order, that is good enough. I will leave the rest "for the conversation" for now, because we would get sidetracked endlessly onto tangents with no end if we tried to cover it all at once. Let me merely say at this juncture, according to the fatally flawed paradigm that governs financial thinking at present, this high-powered base strata cannot be allowed to fail without bringing the whole system down, and the "full faith and credit of the Federal government" (a nonsense expression), "backed" by the full <u>force</u> of same (a more relevant concept) stands ready to see that this does not happen. That is why, for example, foreigners are still so willing to invest in bonds "backing" the Federal "debt". In the delusions of those financiers, this is what "underwrites" the high-powered money, despite the evident over-subscribing of those bonds on the surface. Whatever else might happen, the "debt" instruments "backing" monetary system itself will be, of necessity, the last "investments" to fail even if it all came down (or so the thinking goes). Ergo, they become by default the "safest" option for "investment".

The next stratum up from the base is the big banks. They constitute not the base per se, but are so closely linked to it that for a major bank or banks to fail is deemed to be tantamount to the failure of the system itself. The big banks hold a lot of money on deposit, and that money in turn serves as the effective “fractional reserve” for the determination of credit money that the rest of the strata above can issue. If a big bank fails, by the rules of the game a lot of other loans that piggy-back off that reserve would theoretically have to be called in. They don’t have to be “called in”, of course, since the rules are arbitrary, and can be changed at once, but then how would the common-sense perspective be used to fan the flame of hysteria that supports usury’s structure of deceit? In any case, calling in “loans” is not practical in modern practice, so some major source of new money has to be found, ostensibly, to plug the hole in the dike. Ultimately that could be done by merely issuing money by fiat, but if the banking system ever resorted that “desperate measure”, their modus operandi would be exposed as the fraud that it is. The “only option”, therefore, is that the system scramble to find un-committed reserve funds; even unto the ersatz necessity of the Federal government itself “borrowing” the necessary money and sandbagging it into the breach. In the prevailing mindset, monetary for which liabilities that the large banks are responsible must be honored to not precipitate a fatal convulsion of the system. When that possibility seems to loom, the Federal government intervenes (as with FDR’s banking holiday and reforms, the Continental Illinois and Baring banking scandals, and the Mexican government “debt-restructuring”).

The next stratum up consists of the smaller banks and the banking system’s biggest customers. These include large corporations, large public entities (states, cities, bonding districts, etc) and the mega-wealthy. These are the major players, and confidence in the system rests ultimately on their remaining able to pay their debts. This imperative is not as absolute as for the bottom two strata, but is important enough, depending upon circumstances and the vagaries of the political process, for government rescue from insolvency in some cases (as for the Chrysler Corporation and New York City bailouts).

Let us proceed further up the strata until we encounter the consumer. That is actually where the bulk of the inverted pyramid lies. Ultimately all production is meant for consumption, and the “consumer” in this country is synonymous with “middle class”. It buys virtually everything that is sold on the market, either directly or indirectly. Even nominally governmental expenditures are responsive to what the middle class wants, or can be

persuaded to think it wants. If they speak up for a road, the chances are good that a road will be built. If they clamor for a “war against crime” give them police, courts and prisons. If the (induced) “political will” is for a war in Iraq, well they can have that too.

The personal credit of middle-class has been the great engine of monetary growth since WWII. We have truly established a consumer society, and its dubious glories have become synonymous with the “American Dream”. The consumer role in money generation can be thought of as operating within the top three strata of the inverted pyramid. The third from the top is where the most big ticket and durable item purchases are financed. This consists of major small business loans, education loans, high-end vehicles, personal investments (mostly as real estate), and housing. The emphasis here is on home loan credit. This has been seized upon as the great engine of “debt”-creation in the private economy. A lot of manipulation has gone on behind the scenes to milk this cash-cow to the max, and this is what is driving the phenomenal-beyond-reason escalation of housing prices that we see. The method of madness is to make available easy credit, GI loans, housing subsidies, and other devices designed to get families into a first home, and then roll over the growing equity (most of it “debt-money” induced “inflation”) in that structure to bring in more “debt-money” (e.g. – ditech.com). A certain rate of default can be tolerated in this stratum as long as there is enough cash floating or willing creditworthiness in the housing market to pick up the slack. The system itself is soulless, and does not care if a person has a home (to be sure, people in the system may care). It is effectively concerned that there exists enough solvency in the peoples lives, however desperately obtained, to keep its tottering credit pyramid propped up. A dash of media-induced hysteria about the housing market pumps up the lump.

The next stratum up consists of small business and consumer loans for mid to minor capital items (cars, appliances, furniture). Beyond housing, these are the things one needs to maintain oneself minimally as even a potential participant in the credit structure. Consequently, they are commonly made available, but often on stiff terms. The consequences of loan default at this level with respect to the economy are less severe simply because credit-money at this level is not supporting much of a credit structure above it. If the failures are massive lesser banks could be in trouble, but that is not a great threat to the system itself. Shady dealers, then, can afford to advertise “No credit – No problem; we have a car for you”.

The highest stratum is composed mainly of the “revolving-debt” instruments of the consumer culture; most specifically credit cards, credit lines and payday lenders. These financial devices (especially credit cards) may act as be conveniences for the well-to-do (those that can afford to pay them off each month), but for those financially vulnerable souls finding themselves in a position of depending on them, they are trapdoors to a financial purgatory. For the “middle class” they can also act as means to keep up lifestyles, and thereby stay in denial about one’s deteriorating financial condition. This in itself can quickly turn into a slippery slide out of the middle class, and into underclass finances as a way of life.

As to whether consumers default on these “debts”, it is of little consequence to the system to as a whole. Business at this level is all gravy to the banking system, with little cost, except printing and postage on the billions of “new offers” they send out in the mail each year to anyone with a pulse. These are legalized loan-sharking operations, seeking whom they may suck dry. That specifically is why those with a major credit-card “debt” crisis continue to have their mailboxes stuffed with new offerings, even from the same companies they are in arrears with. Traditionally, if the consumer went bankrupt, the “debt” on these cards would lapse; but that was ok – fresh credit “debt-money” out of thin air could be safely issued again. The cycle of exploitation is to lure the vulnerable into unpayable revolving “debt”, raise the rates of servicing it to obscene levels to insure that they can’t pay, squeeze all the financial blood out of them that is possible, ruin their “creditworthiness”, let them go bankrupt if it comes to that, extend to them new credit thereafter on expropriative terms, and leave them with no recourse. The game has taken a particularly cruel twist with passage of the 2005 bankruptcy law that disallows much even of the relief this extremity might offer. The credit-card companies howl that this new statute was needed to protect their “debt-paying” customers from being saddled with the cost of the deadbeats. This is a lie. It is tantamount to saying that the Mafia loan shark needs a law to prevent the unpaid “debts” of his “irresponsible customers” from falling on the shoulders of his “honest clientele”.

It is meet at this point to inject a note on personal responsibility. There are those who say that many revolving-“debt” holders brought on their own problems through their own profligacy. There is a large element of truth to this, but it is also an apt observation for a society that has given itself over to material wants. Moreover, the same spirit of irresponsibility that drives the imprudent actions of many of the “underclass” also infects a social order that even allows a usury-based monetary system to exist. There is plenty of

blame here to go around if that is what one is looking for. The truth is that we need to quit scape-goating the “losers” in an inverted economic order that mathematically guarantees that a large and growing portion of the populace will become such, regardless of otherwise human good faith and effort.

It is a little realized secret that the effect of bankruptcy is to let air out of the usury bubble, which in turn helps to keep the Fed’s corrupt monetization scheme going. To a large degree the system depends on it, and even uses it as a tool. Bankruptcy is how, for example, the people of this nation have been largely dispossessed of their heritage in the land. Even if farmers did manage to sell ahead of the curve, it was effectively a forced sale. Families that have husbanded the land for generations don’t leave it willingly. “Farms” now are largely factory operations outdoors, producing not for market, but on contract to a handful of conglomerates that control the food chain (and the chain of life associated with it) from seed to supermarket (and the government too). The operative question is not as simple as “loan repayment or no”, but rather the stratum in which any default occurs. At the base strata of the monetary inverted pyramid loan default, at least within the context of current delusion, will convulse and even threaten the existence of the system (and I emphasize “within the context of current delusion”; this is the de facto “reality” because that is what people have been conned into believing, but ultimately it is not true). As one moves up the strata, this default-phobic reflex becomes progressively less operative to the point were at the top the banking system does not even want its customers to pay up. Its primary “interests” are in keeping the consumer’s life pinned down in revolving credit at increasingly harsh terms. At its uttermost the game amounts to little more than driving the citizenry into indentured slavery.

The Real Estate Insanity:

You ask:

I don’t understand the real estate insanity. I’m in Orlando. As with so many other areas, there is an abundance of “nice” areas with lovely, spacious houses and other areas of squalor and decay with shabby houses. The economy is one organism, right? There must be a relationship between these two elements. What is it? Can it be stated, if it is so, how those who buy “nice” houses are directly contributing to the system which, on the other hand, produces slums and squalor? Is purchasing houses or property part of the problem?

This is an excellent question, a worthy answer for which could take off into quite a dialogue. As a place to start, I would invite you to revisit it in the light of what has been delineated above. Beyond that I would point out a few factors that might clarify the thought process. The net effect of usury in the monetizing process has been to create a separation between the actual human economy, and the financial matrix that ostensibly serves it. Stated another way, what matters any more is not who does the productive work, but who holds the "debt" paper. One result is that the price of a representative house has been decoupled from fair correlation between the actual value-added, measured in human effort, to build and maintain, and its practical worth as an abode. Houses, even one's own, have become gambling chips in the casino economy. Those who buy outsized palatial digs are commonly given credit for "contributing to the system", "supporting the housing market", "providing construction jobs", and all that, but are they contributing to or subtracting from the Economic Life. So, who is contributing? What is the standard? Those are contributing who are serving the true needs of their fellow human beings in brotherhood. Each must answer to that mark as best they can in their own situation, and for now the options are all tainted.

As to the query – "Is purchasing houses or property part of the problem? I don't know. Who is the person? What is he or she trying to do? What is their path? What is in their consciousness? The deleterious effect of indulging in gratuitous consumption in real estate, vehicles, clothes, entertainment or whatever is undeniably there in the aggregate. As to specific cases this can only be determined by the individual in the moment. I would caution against simplistic answers. One generation's conspicuous consumption can become the cultural treasure of the next. These questions cannot be fully worked out within the present consciousness, and it behooves us not to fall into the temptation to "moralic acid", as Steiner called it. That said,there is clearly much that is perverse in the present "real estate insanity".

The Method of Capitalism's Madness:

You continue:

Does "purchasing" mortgages keep money somehow out of circulation where it could do good, i.e. be available and used where it is needed by those who need it?

This question touches upon the fundamental dynamic of the capitalist system, as currently practiced. Let us suppose that a person in the present economic order comes into possession of a sum of monetary capital that is greatly in excess of his personal needs. He could squander it anyway. There are no natural limits to profligacy. Suppose, on the other hand, that he wants to make a more "prudent" use of the money. In that case he could "invest" it. Would that not benefit everyone? Does not the health of the economy depend on "investment"? Let us suppose that he decides on this basis to hold onto his money until a good "investment" opportunity comes along. It might even be a "green" or otherwise socially responsible "investment".

As an exercise in maldestination, let us take a closer look at what is happening here. In the rumination above I talked about the "market cycle", and how within a non-usury monetary system every "drop of currency" that passes though the hands of the consumer would as a matter of course shows up in the coffers of the producer, and from there back into the pockets of the consumer. This is another way of saying that there is enough money in circulation for those who labor to produce to buy back the aggregate of their production in the marketplace. This is a matter of self-evident principle; much like the fluid in our analogous hydraulic loop completing its cycle.

Enter our capitalist entrepreneur with a fistful of money that is in excess of his needs. If he squandered it, he would of necessity, at least, be spending it on things that were produced. He could, for example, buy a yacht for each day of the week out of his love for the craft, and that in turn might provide some dream niches for those that have a passion to build yachts. His collection could be housed in a museum after his passing as a heritage for those of similarly appreciative mind. Or, he could buy a Boeing jet, turn it into a flying bedroom, and burn up the rest in thousands of gallons of fuel flying himself and hired lady friends around on extravagant joy rides. It can be said with certainty that, monetarily speaking, both of these acts are the same. They would each be completed seamlessly within the market cycle. There could, of course, be many opinions offered as to the moral effect of one approach vis-à-vis the other, and the relative merits do feed in a real sense into the Economic Life, but as a monetary phenomenon they are identical.

Suppose now, that our capitalist friend wanted to manage the funds more "responsibly", and decided in favor of the "investment" option. He would withhold his money until the right

opportunity came along. Whether he was motivated by greed or some altruistic notion, we can say with certainty that the very act of his withholding of money from the market cycle pending the availability of a suitable bundle of mortgages to “purchase” creates a shortfall in the aggregate of buying power within that closed loop that is precisely equivalent to the price of those homes he would propose to finance. He has by his actions created the “need” he would purport to fill. This loophole is precisely the quintessential method of capitalism; to wit – to use one’s position of financial advantage to withhold value from the market cycle which is in excess to one’s own needs (but fairly earned by the exertions of others), pending the offering of a “debt” instrument by which those of less privilege will be obliged to “borrow” it back into circulation at “interest”, thus completing said market cycle. The “trickle-down” school of economics is based on the very notion that this is the best way to create enough “economic growth” to “raise all boats”. The effective duplicity at the root of their argument should be obvious.

All this said, my intent here is not to make a morally simplistic argument that condemns or approves this or that outward course of action. It would require a bigger discourse than I am able to provide here to do justice to the question, but if, for example, the people of a social order were to adopt a usury-free monetizing mode which was guided by a morally consistent thought process, it would be possible for loan money made available as a social good to be prioritized on the basis of human needs. Within such a regime those with a good purpose for such funds would not be forced to go to the usurer, and so the craven money-changer would be effectively out of business. There is, however, a level of desire that is beyond subsistence that might move a creative artisan to borrow capital from someone who had an excess. There are, after all, people of good faith who have a talent that makes them good stewards of money, and in the context of a reasonable division of labor it may be appropriate them for them to manage the finances, leaving the creative entrepreneur free to do what he does best. These questions ultimately can be answered only in the context of associations between morally-free beings. What can be said with certainty is that within an imposed monetary system that is usury-based, there is no way possible to work this out ultimately on the basis of equity.

You ask:

Is saving money evil, in a similar sense? (i.e., that it keeps money from freely circulating toward the obtaining of necessities for those who need them?)

Saving and monetizing are related, but only indirectly. Economists have worn themselves out with a lot of nonsense from all sides of this question. The most relevant factor is – “How does one save money”. The options are essentially to save it in a shoebox or in the bank. Money in the bank aggregates statistically with other’s savings, and is factored into monetizing parameters. It effectively stays in circulation. Money in a shoebox is only slightly more problematic. Absence of such currency overall does get picked up in the monetary aggregates, and so should be compensated for by the people who are responsible for making the calculations related to the money supply. The problem is that within a “debt-money” system money hoarded is effectively a withholding of currency from the market cycle that has to be made up by someone else “borrowing” an equivalent back into circulation. This could add a moral dimension to one’s deliberations on the matter, but before getting carried away on that wise there is a larger context that one should consider.

Classically, there are two factors that affect the amount of money available to do business. One is the total quantity of money in circulation (M), and the other is its velocity (V); i.e. the rate at which it changes hands on average in a year. Technically, the Gross National Product is equal to the money supply times its annual turnover (GNP = M x V). If the money supply amounts to a trillion dollars, and those dollars change hands twenty times, then the GNP would be twenty trillion dollars. Simple enough.

Holding a certain amount back as savings affects most directly the “velocity” at which money moves. This would seem to inject a moral bias in favor of not saving. It is not that simple, of course (nothing in economics ever is). By this same logic one could say that it is everyone’s duty to spend the money in one’s possession as fast as one can. If, therefore, there are bills in one’s wallet that one is not rushing out to spend at the earliest possible moment, one is creating a hardship for someone else. That this argument can get a bit silly should be obvious. Within a monetization picture that was animated by free money, the average rate of savings of the society would be factored in as a tendency of the culture, and the money supply would be adjusted to compensate. There would be no net cost, whatever the tendency. Then the only factor at issue would be to conduct oneself in brotherhood in whatever way one deemed to be proper in one’s personal circumstances. As a rule, that

would seem to me to be the most expeditious way to act now, unless there are special contraindicating considerations.

You write:

I'm sure that the "investing" and speculation in real estate must directly result in the cost of housing for everyone going up, including for the poor. Am I correct? If so, can it be stated succinctly how that happens?

Under present conditions "investment" and speculation do indeed drive the price of housing up for everyone, which is what it is designed to do. Upwardly mobile pricing is the body that "investing" and speculation feed upon. It is essentially a bidding-up process, and we all pay the penalty. The remedy to this whole situation is to move to a non-usurious monetary system. That would take the headroom for exploitation structurally out of the market.

That said, I would not go so far as to say the someone offering money for mortgages is necessarily acting out of lower impulses. For example, there are real obstacles that are often put in the way of people participating in the economy. I come from Chicago, and there was for years in that city a practice known as "redlining". It denied access to credit to people that wanted a home, and drove prices down such that residents already living there could not realize just equity from the sale of their house. Many ugly ramifications followed. I could imagine, hypothetically, that there might appear on the scene someone holding capital that would be moved to offer it as cheaply as he felt he could afford (there are laws that prohibit the contracting of a loan on real estate at any less than a specified rate of interest) in a good-faith effort to counteract the effects of redlining. One would have to be themselves one of the parties living within the reality of such a situation to know the true spirit of it. Moreover, one has always to allow for the possibility that a person is acting out of the highest principle that his consciousness allows, even if his actions appear to be grossly selfish in nature. My point here is that we can indeed make assessments of the effect this or that factor has on the social order in general, but dare not let that harden into personal judgment.

You say:

(Example: I have significant unsecured bank debts, with credit cards. Is it stupid to "repay"/pay them off, rather than continuing the expensive but, in the interim, less expensive

game of paying only the minimum payments? If and when I do pay off such accounts, the game stops: no more payments, no more principle, no more interest, no more relationship {Hallelujah!!}; and the money in my hands is available to go elsewhere. What, if anything, is wrong with that?)

There is nothing inherently wrong with the idea, but concerning what action to take that is a question that can be answered by you in your life. I hope that what I have given above will be helpful in steering a moral course of action that is consistent with your true destiny. Is it any accident that you are a participant in the Brotherhood Project?

Background Reading:

As concerns the line of thought I am pursuing here, I know of no other writings that are in a similar vein. That is not to say that there are not similarities, but mine is an essentially unique perspective as far as I know. That said, there are sources that I could recommend that might help you with your own thought process.

"***Middle East War & the Rest of the American Revolution"*** This is a document that I composed when I was still an activist with the local peace coalition. At that time I was in the advanced stages of feeling uncomfortable in that role because of the negativity commonly expressed. The work started out as a letter to our Congressman, but soon swelled in the telling until it became, effectively, a tome directed at my compatriots. It is a snapshot of my thinking right before I discovered Steiner. I had actually been involved in a very informal Steiner study group for most of a year, but it was not until the Bard conclave that I knew he had anything to say on economics.

"***Richard Kotlarz, Biography"*** This is a draft of an introduction to a proposed book that I started to write that gives some background on how I became involved in this quest, and thoughts that might help you interpret some of the things I say. The "triune concepts" premise is fundamental to my thought process.

“***USURY: The Strange Superstition"***This is a copy of the talk I gave at Bard College in New York, June 2004.

"Flint, Michigan "“Some Thoughts on Monetary Reform for My Progressive Friends” This is a short treatise that convey some central ideas that I have not as yet expressed succinctly elsewhere, especially as concerns a bogus concept that is being used to tear the world apart at present; i.e. so-called “foreign competition” in the economic realm.

“***Economic Life & the Usury Error”*** This is a treatise that I composed as a handout for the three-day conference on the threefold social order another fellow and I did in March ’06. The thinking behind it is considerably more advanced than for the Middle East War open letter.

“***Transcendentalism: The Second Shot Heard ‘Round the World”*** This is a slightly upgraded version of what you have (small handful of words changed and typos corrected). I include it for the record. There is not enough difference to warrant re-reading.

I will leave this as sufficient for an introduction to my writings. There is a great deal more available in the event that you would like to pursue the subject to a deeper understanding. As concerns the writings of others, I would recommend without hesitation Steiner’s teachings. His series of fourteen lectures gathered into one volume under the title “World Economy” speaks to the core of his economic thinking. It is, however, heavy going for most anyone. Anything by him related to threefolding or the threefold social order is also relevant, and probably a bit easier to read. Beyond that, all his teachings convey essential underlying meaning.

Various writings of the Transcendentalists address the economic life more or less directly, as for example “Walden” by Thoreau, and two essays titled “Wealth” by Emerson. Many others do so tangentially, such as “Little Women” by Louisa May Alcott. Most all of their works prep the soil of the mind for understanding.

I would heartily recommend Zarlenga’s book ***“The Lost Science of Money”***. This isn’t anthroposophy, but it is sensitive and intelligently written. For the story of the monetary thread upon which history is strung I know of know other work that can even approach it for breadth

and depth of research and thought. In lesser hands the topic could easily be a dry and impenetrable tome, but Steve renders it accessible, and even enjoyable for the serious thinker. The book costs about sixty dollars. If you opted to obtain one, I suggest getting it directly from the American Monetary Institute (AMI), and perhaps mention my name. That would be helpful in keeping Steve and I connected. You might even contact him personally.

Another source of good reading is the Acres USA newspaper and the book ***"Unforgiven"***. Charles Walters is the editor of the first and author of the second. He and the people associated with his work (National Organization for Raw Materials (NORM)) are the carriers of the heritage of parity economics that pulled the nation out of depression and financed WWII, demobilization, the GI bill, the Marshall Plan and the Korean War, before oppositional forces succeeded in turning back what was essentially the third monetary revolution that saved this nation (the first two being the Continental Currency of the Revolution, and Lincoln's Greenbacks of the Civil-War-and-beyond era).

If you are up for a bit of research I would recommend digging into the history of the Mormons. This is a part of our heritage that I am beginning to understand must be redeemed if we are to save this nation. There is a book listed on Amazon titled ***"Great Basin Kingdom: An Economic History of Latter-Day Saints 1830-1900"*** that looks most interesting, though I don't have a copy. Also, there is one called ***"Brigham Young: Images of a Mormon Prophet"*** that purports to include written descriptions of Brigham Young by visitors to Salt Lake City, including by Ralph Waldo Emerson and James Garfield (a President who was murdered in office, likely because of his monetary views).

A book came out in 2004 called ***"Confessions of an Economic Hit Man"*** by John Perkins (whom Tim has spoken to, and he has expressed interest in the movie project). This is the hardest-hitting contemporary tome I know of that lays out the "debt-creation" imperative behind out relations with the rest of the world. The strength of the book is that it is a direct telling of personal experience. Its weakness is that even Perkins doesn't fully understand the significance of what he is passing through (we hope to enlighten him on that score for his next offering).

I could recommend many more titles, but in order to really see into them I think one would have to have a rapport with the dialogue put out through my work. That may sound like hubris (and it may be), but I can come to no other conclusion.