# DEMAND SIDE ECONOMICS AND ITS CONSEQUENCE - THE NATIONAL DIVIDEND

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Abstract: To Re-Democratize the Economy a correction of our present monetary system is essential. This paper, using the United States political system as its base, comprises four parts: The first two expose the fallacy of supply side economics through both pragmatic and empirical means, the latter drawing on the national accounts from the Great Depression years.

This denial of supply side economics is conformational to Pope Francis' recent denunciation of trickle-down theories, as he entitled this false concept in his Joy of the Gospel, and is conformational to a form of demand side economics but different than presented in mainstream economics more or less as Keynesian economics.

An argument is shown that understanding the economy as demand driven provides the economic basis supplemental to the constitutional basis for the government creating the nation's money and obtaining its revenues dominantly through a highly progressive income tax, not so different from that during the recovery years of the Great Depression, the World War II years, and for a short time after.

An argument is also made that the great advancements in knowledge and technology that has enhanced so much our way of life over that a mere two centuries ago but in doing so is has formed our society into a near fully integrated industrialized economy. In such a economy, money is paramount, for without such, many amongst us are destitute making life itself most tentative, and Liberty and the pursuit of Happiness rather than guarantees of our liberties are mere words without meaning.

It is also argued that beyond these constitutional guarantees of our liberties are our natural rights, as expressed in the phrase: "the earth belongs to all". But inconsequence of our near fully integrated industrialized economy, the only way we can make claim on the earth's resources and the knowledge that allows these resources to be efficiently converted into the goods and services that fulfill our needs and comforts is through that that some have referred to as "economic rent" that rent is right of the people.

In sum, formally argued are the legal and moral rights for a direct payment to a nation's electorate that draws on the seigniorage from money creation by and revenues of the Federal government for this payment, the latter being obtained mainly through a highly progressive income tax. The National Dividend is the logical vehicle for disbursing this money directly to the people.

## THE FALLACY OF SUPPLY SIDE ECONOMICS - AN OVERT PROOF

The most absurd fallacy fostered onto the people is that economic activity is driven by production. It is the present paradigm and is in fact the foundation of our present dysfunctional financial system. Since this false idea is so ingrained in so many of us and since it is the most fundamental and damaging flaw in macroeconomics, being no more than a ploy to reduce taxes on the rich but much more so on the super-rich and the basis for maintaining the nation's privately controlled credit monetary system,[1] it is here posed as a question: Does economic activity draw money into the economy or does money drive economic activity? These respective issues are referred to as supply side and demand side economics.[2]

Even though this belief in supply side economics on its face should be seen as absurd and more so when seen in view of this recent financial collapse and the failures of the measures taken to correct it, it still holds sway. So as to more clearly expose the absurdity of this supply side paradigm, a conceptual process is offered that many of us in business have personally experienced. Hence, for this reason alone, the entrepreneur's perspective of this absurd fallacy warrants our attention. Fortunately this conceptual process is easy to describe in example form; hence making the correctness of economic activity as driven from the demand side far more understandable.

We begin with a factory that produces the proverbial widget and has been in operation for sufficient time to establish a customer base and a reasonably steady source of labor and suppliers: The factory has a back entrance where the labor force and the materials and other components needed for the manufacture of the widgets enter. There is a factory floor where the widgets are manufactured. There is also a warehouse where the finished widgets are stored while awaiting distribution to customers. At the front of the warehouse is a sales office. This is where the customers come to purchase their widgets. In exchange for the customer's money the sales clerk gives the customer a receipt, which he[3] passes to the warehouse manager in exchange for the widget.

If the flow of widgets through the warehouse is steady, that is, sales reasonably match production within normal ups and downs and the entrepreneur is content with his profits then the business has the correct labor force, the proper equipment, and the correct demand on its suppliers. Clearly everything is satisfactory for the entrepreneur, his labor force, suppliers, and customers. But two things can happen that evidences a disruption of this happy situation: the widgets began to backup in the warehouse or the warehouse becomes empty of widgets. Both draw the entrepreneur's attention, but only the former draws his apprehension. But it also draws the apprehension of his employees.

The observant entrepreneur's first reaction on sensing a reduction in his sales might be to question if his widget is going out of style and some other product is taking its place. If that is the case, he may be able to adept to a new product much as Billy Durant, a buggy manufacturer was able to do in eventually putting together General Motors Corporation at

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[1] As told in several of these APFA (A Plan For America) papers and particularly APFA Paper # 18, the Nation's privately controlled credit monetary system is the main device by which money transfers to the rich and super rich (anewplanforamerica.com). The APFA papers are in: Extracts and Supplements to: A Plan For America, The Means to Economic Health and Preservation of Our Democratic Republic as Told by an Entrepreneur.

[2] Demand side economics as defined here is different from that found in the economic literature and as roughly presented in the mainstream literature where, as best I can discern, it is synonymous with Keynesian economics. Herein, demand side economics follows from the macroeconomic concepts as more or less first put forth by John Maynard Keynes in The General Theory in that it is explicit on the role of money in driving economic activity. As to supply side economics, it is often likened to trickle-down economics (See for example Wikipedia, Supply-side Economics [http://en.wikipedia.org/wiki/Supply-side_economics]; and John Kenneth Galbraith, Recession Economics [http://www.nybooks.com/articles/archives/1982/feb/04/recession-economics/]).

[3] I pray the fair sex will bear with me in using the masculine pronoun, as he/she and his/her seem rather awkward and using she and her seem condescending.

the beginning of the last century. However if the entrepreneur discovers that many of the businesses in the community, beyond those that manufacture competitive products, are experiencing the same problem then there is really only one thing he can do and that is to reduce his purchases from his suppliers and lay-off employees.

The important point is that both of these conditions originate not at the warehouse entrance nor on the factory floor, the supply side, but rather at the warehouse exit, the demand side. Here we have exposed the gross fallacy of supply side economics: the demand for the entrepreneur’s product being greatly curtailed causes him to cut back on his production, which in turn causes him to layoff workers, reduce purchases from his suppliers, and all of this results in his tools of production being unused or certainly not being used to their reasonable capacity. The latter itself removes return on his investment.

But in accordance with supply side economics the solution to this problem is to grant money to the lending institutions so they can lend to the entrepreneur. That of course would do no more than increase the entrepreneur’s already heavy burden with debt to go with his tax burden, which seems always to increase during economic declines. And what is the inferred purpose of the loan money? So that the entrepreneur might stuff his warehouse to where his product is pushed into the street unsold. Obviously it would be absurd for the banks to make such loans and it would be absurd for an entrepreneur to seek such a loan other than a means of maintaining his livelihood, as an alternative to destitution. This is where we are in this present financial crisis. So we look next at the scientific evidence.

## THE FALLACY OF SUPPLY SIDE ECONOMICS - THE SCIENTIFIC PROOF

**Introduction:** The above demonstrates the overt absurdity of supply side economics. The evidence that scientifically exposes this absurdity is best found in the national accounts for the Great Depression, the most instructive period of our economic history. Using the record from this event as the means of understanding our economic system is in accord with Lord Kelvin’s admonishment:

“…when you can measure what you are speaking about, and express it in numbers, you know something about it; but when you cannot measure it, when you cannot express it in numbers, your knowledge is of a meager and unsatisfactory kind; it may be the beginning of knowledge, but you have scarcely, in your thoughts, advanced to the stage of science, whatever the matter may be.” So to begin:

Conventional economics follows from that defined by Keynes as classical economics. The key element of this economics is Say's law, which simply stated is that: supply creates its own demand. According to this idea, all that is needed to increase demand is to increase supply. This was most effectively proffered by the Reagan administration in the 1980s as supply side economics. And it is still the prevailing thought, as evident from the trillions of dollars recently passed to the mega corporations that were to create jobs and grow the economy.

However Keynes in the 1930s reminded us that: "Consumption - to repeat the obvious - is the sole end object of all economic activity” and then came forth with the admonition: “If the leaders of capitalism insisted on *treating problems of demand as though they were* *problems of supply*, and on screwing down the wages of workers in order to restore profits, then a class war could easily arise which would vindicate Marx's prophecy. But such a result would be correctly attributable to error or stupidity: it was not necessary to the survival of the capitalist system that it should act in such a way as to precipitate its own downfall."

What Keynes told in the 1930s is obviously contrary to what the Reagan administration told in the 1980s and which still holds as governing doctrine. But Keynes also told in the 1930s that where the aggregates of supply and demand cross is not necessarily where we have full employment. This has been proven throughout much of history and seemingly with a vengeance in the 1930s and now again in this most recent economic crisis. A further point here is that with less than full employment there is less than full economic demand and there then is less than full satisfaction of society's needs and comforts.

Obviously if one can only gain ones livelihood from employment then it stands to reason that if one is unemployed, one becomes destitute. Hence employment becomes an integral part of supply and demand. So it also behooves us to resolve the relation between employment and supply and demand. We can begin with the obvious - that *it is money that creates demand* for without money there can be no (effective) demand in our modern industrialized world.

**The Driving Force:** The basic mathematical expression for describing the economy as demand driven is: PQ=VM where P is price, Q is production (products and services), V is the circulation of money (the times it turns over each year), and M is the money quantity (M is taken as the Fed M1 although not strictly correct, it is pretty close for the1930s). PQ is for all practical purposes the Gross Domestic Product although back in the 1930s the Gross National Product (GNP) was the only statistic recorded. So that is what I use next: GNP=VM. From this we get the differentials (yearly incremental change): $\Delta$GNP=V$\Delta$M. These equations are in fact mathematical expressions of Keynes law of effective demand.

Conventional economists though express the components constituting Keynes law of effective demand as MV=PQ. They refer to it by various names, but most commonly as the Quantity Theory of Money and the Equation of Exchange. There are a couple of inferences drawn from this equation as it is formed and titled by conventional economists: from the former it is Q that draws M; and from the latter, changes in M are solely in corresponding changes in P. This says that the Equation of Exchange is a mathematical identity between M and P. A further point drawn from conventional economists is that in a stable economy a growth in Q is the cause for a growth in M.

What I have described here is fundamental to the privately controlled credit monetary system. To be a little more explicit: when the entrepreneur does not have sufficient cash to produce his product his friendly banker issues him a credit for the time needed to bring his product to market; and after the product is sold, the entrepreneur from his profits retires the credit plus some nominal fee (interest) for this service. If entrepreneur money demands increase over time then there is growth in the national product. This is the fundamental theory on which the financial sector of our economic system is modeled and governed.

To see what actually happened during the Great Depression may help to clear the mystery of what drives the economy. We can begin with the national accounts for the years 1933 to 1937. Over this four-year period, GNP grew from \$56.00 billion to \$90.80 billion or at an average yearly rate of \$8.70 billion, real GNP grew from \$56.00 billion to \$82.34 billion or at an average yearly rate of \$6.58 billion, and M (M1) grew from \$19.17 billion to \$30.69 billion or at an average yearly rate of \$2.88 billion. Also during this period, prices rose about 10 percent or at an average yearly inflation rate of 2.5 percent. In percentages, GNP grew on average at about 12.3 percent per year and real GNP at 10.1 percent per year. The mathematical expression for this growth in money terms is: $\Delta GNP=3.02\Delta M$.

Clearly, from 1933 and inclusive of 1937 there was a very rapid growth in production and in corresponding consumption and investment with only nominal inflation. This real growth clearly evidences that the Quantity Theory of Money did not function as an identity between M and P, as posited by conventional economists, but rather as a behavioral function between M and Q with only a nominal effect on P and as shown below, caused no significant change in V. That is to say: the growth in production expressed a strong correlation with the growth in money quantity.[4]

We cannot yet say "response to". So the question: Was this amazing growth in these first four years of the recovery in response to growth in money quantity placed through the demand side of the economy or was it production that drew this money from the friendly bankers?

Obviously the increased production was in the private sector and the money came from the (private) banks. But also obvious is that the money came first and in the net only to the Federal government. This we see from the increase in the Federal debt of \$13.63 billion in comparison to the increase in the money quantity, \$11.52 billion. In fact this difference of \$2.11 billion was, in the net, money extracted from the economy by the friendly bankers, included is the privately owned Fed. More is told on that below. There is the further point that prior to 1934 this \$11.52 billion did not exist. As to where it came from, some say: out of thin air. But on the source of this money, more also is told below.

The Federal government then used this \$11.52 billion together with its revenues and the \$2.11 billion also borrowed from the banks[5] to purchase Hoover Dam, the Tennessee

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[4] Keynes in "The General Theory of Employment Interest and Money," Harcourt, Brace and Company, 1936 (Pg. 296) wrote: "Having…satisfied tradition by introducing a sufficient number of simplifying assumptions to…enunciate a Quantity Theory of Money" then considered "the possible complications which…influence events…" However Keynes did not express the mathematical form of the Quantity Theory of Money but in defining these "possible complications" he was explicit in identifying money as being the force driving employment through a demand on economic activity. This he did under certain simplifying assumptions (Pg. 295): "It follows that an increase in the quantity of money will have no effect whatever on prices, so long as there is any unemployment, and that employment will increase in exact proportion to any increase in effective demand brought about by the increase in the quantity of money; whilst as soon as full employment is reached, it will thence forward be the wage-unit and prices which will increase in exact proportion to the increase in effective demand. Thus if there is perfectly elastic supply so long as there is unemployment, and perfectly inelastic supply so soon as full employment is reached, and if effective demand changes in the same proportion as the quantity of money, the Quantity Theory of Money can be enunciated as follows: 'So long as there is unemployment, *employment* will change in the same proportion as the quantity of money; and when there is full employment, *prices* will change in the same proportion as the quantity of money'" Keynes then goes on to describe the real world condition near if not verbatim as we find it here extracted from the national accounts for the recovery years of the Great Depression and the early years of World War II.

[5] Federal expenditures on average for 1933-1937 were \$7.11 billion, which included revenues of \$3.57 billion on average.

Valley Authority, and a host of other major and minor infrastructure works as well as paying for the Works Progress Administration (WPA) and Civilian Conservation Corps (CCC). Clearly this money the Federal government spent placed an added demand of $11.52 billion on the private sector for their products and services; and lo and behold there was no lacking in the private sector to meet this demand. This in itself suggests that where an economic demand is made in a market economy not fully employed there are many willing to create the supply.

But there is more, with the $11.52 billion net increase in money received from supplying the Federal government with Hoover Dam, the Tennessee Valley Authority, etc., the private sector made additional purchases for consumption and investment elsewhere, to the tune of $21.18 billion, as this number together with the government purchases through its deficit spending equal the growth in GNP over this four year period. These purchases were obviously supplied and at prices not too different from those in 1933, as that is the record in the national accounts.

Clearly in the net none of this $21.18 billion used for these additional purchases came from the bankers (other then through this unnecessary connection with the government), elsewhere, or in any other manner such as any significant increase in V, as V was 2.92 in 1933 and 2.96 in 1937. In fact as noted above and again below, the bankers extracted $2.11 billion from the economy, which if they had not done so, there would have likely been additional purchases of $6.37 billion in consumption and investment and corresponding additional employment, as the economy was still under-employed.

From this brief analysis, it would seem difficult to argue otherwise (but don't count the shills and the dogmatists out in doing so) than that a demand will be supplied in a market economy until the economy has reached the full extent of its resources, mainly at full employment; and needed to make that demand is money plus the request for the product and/or service. It would also seem difficult to argue otherwise than that it was the Federal government expenditures that introduced this money into the economy that caused this growth and that this growth would have been still greater, to the tune of $6.37 billion had the friendly bankers not continued to extract money from the economy, to the tune of $2.11 billion.

What is also evident from the national accounts of the 1930s is that a contraction of the money quantity also correlates with a reduction in economic activity: In 1929, GNP and M1 were respectively $104.40 billion and $26.18 billion; and in 1933 they were $56.00 billion and $19.17 billion. There was also a drop in prices such that the real GNP in 1933 was $74.20 billion but there was also a significant slowing in V: from 3.99 in 1929 to 2.89 in 1933. Obviously the same forces were at work between 1929 and 1933 and between 1933 and 1937 only in opposite directions. But the affects were different, as we see in V, but that was only in the magnitude of the influence of ΔM, not in its function.

Clearly from the numbers, deflation had a greater rate during the decline than inflation had during the recovery. Stated otherwise, there was a greater tendency to hoard (hold money) during the decline than excessive spending during the recovery, as expressed in the decrease in V in the former and the near zero change in V in the latter. This hoarding of money compounded the severity of the decline on the public at large. The decline obviously was by far the most distressing part of the Great Depression. The obvious conclusion: If a people wish not to have these distressing conditions they ought not to permit the monetary authority to contract the money quantity.

But, as Keynes also reminds us this was known: "...since the age of Solon at least, and probably, if we had the statistics, for many centuries before that, indicates what a knowledge of human nature would lead us to expect, namely, that there is a steady tendency for the wage-unit to rise over long periods of time and that it can be reduced only amidst the decay and dissolution of economic society. Thus, apart altogether from progress and increasing population, a gradually increasing stock of money has proved *imperative*."

It should be known too that during the 1930s there were essentially only three processes by which money was removed from the economy: the Federal government running a budget surplus, as it did in 1929 and 1930; loss of unsecured bank demand deposit accounts in consequence of bank failures, as was the main source of the money contraction from 1930 to 1933; and the commercial banks retiring loans beyond their issuance as appears to have occurred throughout most of the 1930s. From this it should also be obvious that the difference between the increased Federal debt and increased money quantity during the recovery years, the $2.11 billion, was solely the consequence of the commercial banks' loan retirements exceeding their loan issuances

**The Connection Between Effective Demand And Employment:** We can write an equation similar to that used to express Keynes law of effective demand for the response in employment to the created money quantity during the recovery years of the Great Depression. For example, in 1933 employment (in the civilian work force) was 38.76 million and in 1937 it was 46.30 million. That is an increase of 7.54 million over this four-year period or an average rate of increase per year of 1.89 million, which comes to about 4.4 percent per year. However, this is not the full story as during this period, probably over 3 million were employed in the WPA and CCC.[6] Hence, the increase in employment was more likely a little over 10.5 million and the actual rate of increase was more like 6.3 percent per year.

At the end of 1937 there was still, according to the national accounts, 7.7 million unemployed. The unemployed (expressed in percent) were in part a consequence of the growth in population with the labor force growing from 51.84 million in 1933 to 54.32 million in 1937.[7] But I believe they were also in part in counting those with the WPA and

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[6] The video: The Great Depression- New Deal/New York (http://www.youtube.com/watch?v=2_7rg7xKnkU), states 4 million in the CWA. Wikipedia agrees with this number in Civil Works Administration (http://en.wikipedia.org/wiki/Civil_Works_Administration). The CWA was however shortly replaced by the WPA and CCC.

The "Works Progress Administration (WPA) was instituted by presidential executive order under the Emergency Relief Appropriation Act of April 1935, to generate public jobs for the unemployed. The WPA was restructured in 1939 when it was reassigned to the Federal Works Agency.

"By 1936 over 3.4 million people were employed on various WPA programs." Works Progress Administration (WPA) (http://www.u-s-history.com/pages/h1599.html). The best evidence is that 250,000 to 300,000 were enrolled in the CCC. Instead of the 3 million more like 3.65 million should be used in the analysis. Hence this would have reduced unemployment by 1.5 percent to 7.2 percent.

[7] This projects to an annual increase in the work force of 1.2 percent. That seems low given that population growth for the first two decades of the century was about 1.6 percent. There was also a transfer from the farms to the city during this period that would add still more to the growth in non-farm employment, which is understood to be the numbers expressed in the national accounts.

CCC as still unemployed. When these numbers are taken into account, the actual unemployed would be about 4.7 million or the unemployment rate closer to 8.7 percent.

What can be drawn from this brief analyses is that each injection of $1.0 billion increased GNP by $3.02 billion and employment by 0.91 million (includes those in the WPA and the CCC). Obviously to reduce unemployment to about 3.5 percent, a reasonable number, would have required increasing employment by 5.2 percent or about 2.8 million, which would have required injecting an additional $3.10 billion into the economy. In other words, the average annual addition to the money quantity would not have been $2.88 billion but rather nearer $3.65 billion if the nation were to have full employment in 1937. During the pre-war years, inclusive of 1939-1941, that is more or less what happened. But it was in a haphazard manner not in accord with the record put forth in the national accounts.

An obvious further point is that *the Federal government could have created the money that brought the economy out of the Great Depression through its own account entries* rather than paying the private banking system under the auspices of the Federal Reserve System to do it through their account entries. Had the Federal government done so and only created the money quantity it issued as debt, the unemployment would have been about 5.5 percent at the end of 1937. One may view this as not an end to the Great Depression in consequence of the WPA and CCC still active and the union strife at the time but at that rate of injection, unemployment would have been near 3.5 percent some time in 1938. It is noted that Germany, with a higher unemployment rate in 1933, had achieved full employment by the end of 1936.

Obviously the implications from these analyses, as they relate to our monetary system and its management, are immense beyond the mere fact that the Federal government should create the nation's money through its own accounting process rather then have the private banks do it at such great cost, not simply monetarily but socially too. Incidentally, it is congresses' charge "to coin money and regulate the value thereof", as set forth in the fifth clause enumerating its powers. For congress to do otherwise, as it has for almost the total of the nation's history is to abrogate its authority and responsibility. That is as much a fault as to overreach it powers, as it has done on so many occasions, mainly beginning with the Great Depression and then again and far more so with the Great Society programs.

**Professional economists writing on the Great Depression:** and others argue that it was World War II that turned the country around. That is at best grossly misleading and more appropriately blatantly wrong if not a blatant lie. The rapid growth in employment and economic activity between 1933 and 1937 was shown in a previous section. Not shown was the stall in the economy that occurred in 1938. This has been referred to as a recession within the depression.

Many economists, including Milton Friedman, have attributed this economic setback mainly to a doubling of commercial bank required reserves beginning in late 1936.[8] That

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[8] The Federal Reserve Bank of St. Louis in Table 1 (Working Paper 2011-002A January 201,Pg. 41), http://research.stlouisfed.org/wp/2011/2011-002.pdf) show the raise in reserve requirements that begin in Aug. 1936 being essentially double in May 1937 that that they were prior to this date. But these higher reserve requirements were maintained to Dec. 31, 1941, the last entry shown in this table. Obviously these higher reserve requirements did not affect the banks' loan issuances and loan retirement activities after

though ignores a host of other factors, none seemingly acknowledged by these economists including Milton Friedman. The first obvious fact that the change in reserve requirement were at best a factor in the 1938 recession comes from the mere fact that throughout the Great Depression the commercial banks were at best neutral and for the most part continued to retire loans beyond issuances. This we see in the last column in Table 1 where positive numbers for the banks loan issuances minus their loan retirements are for the years of 1935 and then 1940 and 1941.[9]

TABLE 1
THE DEFICIT AND M1 MONEY GROWTH

| Year | GNP Billions | Real GNP Billions | M1 Billions | Deficit Billions | ΔM1 Billions | ΔM1+deficit Billions |
|---|---|---|---|---|---|---|
| 1930 | $91.10 | $95.10 | $25.08 | $0.74 | $(1.10) | $(0.36) |
| 1931 | $76.30 | $89.50 | $23.48 | $(0.46) | $(1.59) | $(2.05) |
| 1932 | $58.50 | $76.40 | $20.24 | $(2.74) | $(3.24) | $(5.98) |
| 1933 | $56.00 | $74.20 | $19.17 | $(2.60) | $(1.07) | $(3.67) |
| 1934 | $65.00 | $80.80 | $21.35 | $(3.63) | $2.18 | $(1.45) |
| 1935 | $72.50 | $91.40 | $25.22 | $(2.79) | $3.86 | $1.07 |
| 1936 | $82.70 | $100.90 | $29.00 | $(4.43) | $3.79 | $(0.64) |
| 1937 | $90.80 | $109.10 | $30.69 | $(2.78) | $1.69 | $(1.09) |
| 1938 | $85.20 | $103.20 | $29.73 | $(1.18) | $(0.96) | $(2.13) |
| 1939 | $91.10 | $111.00 | $33.36 | $(3.86) | $3.63 | $(0.23) |
| 1940 | $100.60 | $121.00 | $38.66 | $(3.88) | $5.30 | $1.42 |
| 1941 | $125.80 | $138.70 | $45.52 | $(6.16) | $6.86 | $0.70 |

As Table 1 shows, for the whole of the Great Depression years, between 1930 and 1939 only in 1935 did the banks not extract money from the economy and then it was a paltry $1.07 billion that they added to the money supply. The total amount withdrawn from the economy during these years was $17.6 billion. That is two-thirds of the money quantity existing in 1929. Ah, one may say: "But the big numbers were in 1931, 1932, and 1933 due mainly to bank failures in consequence of the instability of the banking system." But that only reflects more adversely on the private banks with the Fed as a monetary regulatory authority.

But even during the recovery years, after the banks were stabilized in 1933, they withdrew $5.54 billion from the economy. Hence the withdrawal of money from the economy by the banks in 1937 can hardly be attributed to the change in reserve requirements but rather to the banks' conservative loan issuances throughout the Great Depression years. There is another factor that undoubtedly attributed to the larger extraction of money from the economy by the banks in 1938; it was the completion of the Golden Gate Bridge in late 1937. Bank of America financed it.

The 1938 recession is clearly reflected in the change in money quantity, also shown in Table 1. For the inclusive years of 1934 to 1938 it was in billions: $2.18; $3.86; $3.79;

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1938. That in itself would logically suggest something different than this increased reserve requirement as the causative factor in the 1937-38 Recession.

[9] Table 1 is taken from Chapter XI in A Plan For America, The Means to Economic Health and Preservation of Our Democratic Republic as Told by an Entrepreneur.

$1.69; and -$0.96. As also shown in Table 1 and as evident in the previous section, the growth in employment and GNP (and Real GNP) for the inclusive years of 1934 to 1937 was in direct proportion to this money growth. Considering the negative growth in money quantity in 1938 and the lesser growth rate in 1937 to expect anything different in employment and economic activity clearly defies logic.

The veterans' bonus payment in 1936 was in part the reason for the relatively high deficit in1936. As also shown in Table 1, it translated into the greatest growth in GNP for the inclusive years of 1934 to1937. The numbers in Table 1 and as employed in the analyses in the previous section clearly demonstrated this relationship amongst employment, GNP and money. So why did money growth slow in 1937 and reverse in 1938? Some of the major infrastructure works were financed by commercial banks. For example, as noted above, Bank of America financed the Golden Gate Bridge. But the Federal government financed most of the Great Depression infrastructure works. This was true of Hoover Dam on the Colorado River, the Tennessee Valley Authority, the many water projects in the Great central valley of California and elsewhere in the Western states, and the San Francisco–Oakland Bay Bridge, as examples. What is more than interesting but clearly not told by professional economists including Milton Friedman is that the San Francisco–Oakland Bay Bridge was completed and open to traffic on November 12, 1936, Hoover Dam completed and opened in 1936 and the Golden Gate Bridge opened to traffic in May 27, 1937.

How many other projects began in the earlier 1930s and were completed at about this same time as the two Bay area bridges and Hoover Dam is not known. Certainly it would be worth study to determine this. Projects of these types being completed at this time obviously removed many people from the work force and corresponding to the removal from the work force was the reduction in government expenses. The evidence seems overwhelming that the government could have continued economic growth and employment had it simply passed money directly to the people. In a real since, that was what it did with the veterans' bonus payments in 1936, which clearly boosted the economy that year and carried over to 1937.[10]

The lie professional economists put forth that World War II not government expenditures from 1933 to 1937 brought the economy out of the Great Depression is exposed by the numbers. The numbers put forth in the analyses in the previous section showed growths in GNP and Real GNP and employment for the inclusive years of 1934 to 1937 respectively of: 12.8, 10.1, and 4.5 percent. For the inclusive years 1939 to 1941, these respective values were: 13.8, 10.3, and 4.2 percent. These are very similar rates and reflect similar rates in money growth: for the earlier period, M1 grew at 9.5 percent and for the latter it was 8.1 percent.

The growth in employment, economic activity and money during these two respective periods is clearly very similar. However there is one very important difference: in the first period the economy produced such as the Golden Gate Bridge, the San Francisco-Oakland Bay Bridge, Hoover Dam, other water projects throughout the Western states, etc., and the high-school I graduated from; whereas during this second period the government drafted men into the military economy and produced war materials that it

[10] 1936 was also a drought year particularly affecting potato yields. But still the economy experienced corresponding greater real growth, as expressed in the national Real GNP.

shipped a few hundred miles off the eastern coast where German submarines sent them to the bottom of the Atlantic along with some good men.

**COUNTER THE PROPAGANDA OF SUPPLY SIDE ECONOMICS**

Told here is contrary to the propaganda set forth before the people over these many years regarding supply side and demand side economics. First is to recognize the fact that the propaganda in promoting supply side economics is so forceful as to defy measure and has convinced many amongst us if not most all of the soundness of this absurd idea at least of its acceptance. However this propaganda is not without certain truths, for the lie is far more palatable when spiced with some truths.

The lie begins with the common knowledge that through our labor we produce societies' goods and services and through the wages we receive we make purchases of these goods and services. That is an irrefutable truth but now to the lie that also has some truth in it: The money the entrepreneur draws from the banks (the investment houses) is the source of the wages we receive to purchase his products. The fact is that only a small part of the money paid in wages comes from such loans the great majority comes from sales. Yet this view, that it is loans that serves this source, many of us now hold without compunction and it is done in full view of the present financial crises that was brought about almost totally in loans (credits that form most of our money) issued by the financial institutions to households for the purchase of houses and other consumer goods and services.

To repeat, these loans went to households, the demand side of the economy, to purchase living space and other goods and services that helped fulfill the needs and comforts of consumers or if not for this purpose, then to speculators but the loans certainly were not to entrepreneurs involved in homebuilding, as the homes were already built. This is the obvious wrongness of this prevailing view of supply side economics. But the fact that the larger share of loan money is to households and not entrepreneurs is also clearly evident in the national accounts where we find household debt exceeding business and state and local government debt combined in 2005. But this is a more recent occurrence, as we also find from these accounts that show household debt well below this combination in 1952.[11]

During this earlier time, the money disbursed by government through its purchases during World War II was rather uniformly distributed amongst the greater population. But even business loans then were less than one-third of GNP; in 2005, we find that ratio doubled. These accounts clearly show household debt has increased nearly three and a half times what it was 53 years earlier while the M1 money item has decreased to where it is less than one-third as a ratio to GNP of this earlier value (in 2008 it was one fourth of what it was in 1949).[12]

Obviously loans for home purchases, home improvements, household appliances, autos and small trucks for the most part are consumer purchases. *Most all established*

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[11] Tables in Chapter XIX in A Plan For America, cited above, summarize these statistics. Table 1 in particularly is helpful in showing these respective debt quantities as a ratio to GNP. It also exposes the change in money and debt that has taken place since 1952.

[12] It should be recalled that the M1 money item was what most of us considered to be money including the Fed prior to the 1960s and maybe later. Clearly it was the circulating media during this earlier time.

*businesses maintain their operations on retained earnings for if they did not, or maybe more appropriately cannot, they are on the road to dissolution*. Certainly start-up businesses and those engaged in expansion, or occasionally for replacement of physical capital or for moderate expansion have need for loan money. But they are a very minor part of established business activity or would be under an equitable and sound monetary system. But it is these small start-ups that often have the most difficulty in obtaining institutional credit.

When viewed more closely, we find these forms of business loans partly for consumption: It should be evident that an entrepreneur like his employees needs money to maintain his livelihood. This he draws from his company, again as his employees do. Should he not draw this money, the company could retire the loan sooner, hence he would over time have carried less debt. Clearly the entrepreneur could do this and borrow money to meet his living expenses. This means might provide a clearer view of his business operations. But there are obviously other reasons for carrying the loan on the business: the means of securing the credit and tax benefits likely being foremost.

This does not deny the need for certain segments of the business community that has need for short-term loan funds even under an equitable and sound monetary system. Homebuilders, particularly those entering the industry or expanding their operations have such needs. But often and for the most part these loans are short term, as their purpose is to support the operation from the point of physical construction to sale. Established farmers may have such needs to carry them from planting to harvest, particularly when the products require long periods from planting to harvesting such as fruit orchards.

Clearly a far more common need for loan money is exchange of ownership. That usually takes place when the principal(s) of an established business seeks a different path in their life pursuits. Such often occurs when the seller plans retirement and chooses to pass the business on to the next generation. That generation then needs loan funds (usually long term) to make the transaction. The result is no change in production but with the added time of retirement or such, and the added money (should the loan be drawn from a financial institution) there is likely an increase in consumption. In other words, such a transaction may place a greater demand on economic activity but it would be nominal at most. An additional point is that such loans are often independent of financial institutions, hence the demand on economic activity would likely be even less.

In most all of these cases, the money is placed on the demand side of the economy not the supply side and what money was needed on the supply side it would have very little influence on production and could easily draw from the demand side. Yet our culture embeds itself in the belief that our economy is supply side driven. The fact is that these consumer loans: home, auto, and otherwise, drove economic activity during the housing boom for the more or less five years beginning in 2002. But economic activity was driven more effectively in the early post World War II years with consumer purchases made mainly by cash introduced into the economy during World War II through Federal government purchases, as evident from the national accounts.

## ACCORDING TO OUR ECONOMIC LAWS

This brief paper introduced supply side economics as no more than a ploy to reduce taxes on the rich and the super-rich and as the basis for maintaining our privately controlled credit monetary system. To recall, it was the Reagan administration that popularized supply side economics and then reduced the highest marginal tax rate from 70 percent to 28 percent. But the privately controlled credit monetary system had its beginning centuries back when its dealings were primarily in wholesale trade. That was at a time when coinage served as the primary medium of exchange in retail trade. But those times were greatly different from the present.

Supply side economics is also the underlying basis for seeking markets throughout the world that almost always result in various forms of world conflicts. The most notable was World War I. The European powers of the period each sought colonies for their markets. Markets of course have two sides: a source of raw materials necessary for producing the products and services that are used to produce consumable goods and services, i.e., investments; and economic demand that draws these goods and services, i.e., consumption.

Obtaining the raw materials particularly from the nations of the less developed economies has never been a problem for the more developed nations: they simply took what they wanted from these nations if not through some convoluted pretext of exchange than by the overt means of war. That was so with the Spanish in Latin America in the 1500s in extracting gold and silver and removing these metals back to Europe. The metals taken by the Spanish from Latin America in the 1500s were primarily to form a monetary base with only limited physical utility.

However, in later centuries, these European nations sought products that would meet the physical needs of investments and consumable goods, that is, physical utility: The British in India and a few areas in Latin America and in the Caribbean Islands; the Dutch in southeast Asia, the French also in southeast Asia and then in North Africa. The U.S. led war with Iraq was similar, to obtain that nation's oil. Although oil today drives the world economy, the goals are the same: to seek money in exchange for the products and/or services for the exchange.

But extracting these physical utilities to be efficient required physical investments that also drew on the local labor, which in these later centuries were paid some nominal wage, which could in part be used to purchase the products of these European nations. But since these wages were small, these forms of purchases were at best minute. That is still true today only today this labor is used more for the manufacture of the products that are then sold in the developed nations.

In fact the wages in these third and second world countries are so low that for example, the wages paid to those manufacturing cheap tennis shoes are not sufficient to buy the shoes they manufacture. So these competing entities need to look elsewhere for buyers of their products and services or for some other means of obtaining the money they need to buy the things they desire. That of course is the second reason for war: to create demands for products and services that transfer money from the purchasers to those that supply the products and services. But it is only governments that can make these purchases, as it is only governments that can demand the money from the banks that administer these privately controlled credit monetary systems. This is all contrary to our economic laws and to our democratic form of government and definitely to the best interest of the great majority of the people.

Whereas in accordance with our economic laws and our constitutional form of government: Newly created money is to be the product of the Federal government and in accordance with our democracy it is to be passed equally to the people. Also in accordance with our economic laws and with the authority and charge of congress, taxes are to be progressive on wealth and/or secondarily on income. The Federal government's power to regulate commerce with foreign nations properly exercised will assure the people have the opportunity to produce the goods and services they need without undue outside interference. These are the things that are in accord with demand side economics and our democratic form of government.

**THE NATIONAL DIVIDEND**

The right to a National Dividend is rooted in the American Declaration of Independence, the cornerstone of our political system: *We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the pursuit of Happiness. — That to secure these rights, Governments are instituted among Men, deriving their just powers from the consent of the governed, —* It is also inherent in our Federal Constitution through the general Welfare clause.

Before moving on it is imperative that we have clear understanding of *unalienable*. Our standard dictionaries, both on the Internet and on our shelves give the following definitions of unalienable: first that it is the same as inalienable. From the Internet, we have for inalienable: not able to be transferred or taken away, e.g. because of being protected by law. From our shelf dictionary, we have for inalienable: Not transferable; that cannot be rightfully taken away.

In consequence of the great advancements in technology that has become our society over the last near two centuries, we have now a fully integrated industrialized economy. In such a society as we now live, there can be no right more unalienable than an equitable and sound monetary system. For it is through this most unique form of accounting that we call money that we have economic intercourse with society. Hence, without such, many amongst us are destitute making life itself most tentative, and Liberty and the pursuit of Happiness are then words without meaning.

There are many facets to an equitable and sound monetary system. Foremost is that it must be of a form that allows each of us some reasonable minimum amount, as it is (almost fully) through money that we access the goods and services of society that sustain life. There is coupled to an equitable and sound monetary system so necessary in enjoying these unalienable Rights of Life, Liberty and the pursuit of Happiness the obvious axiom, as many have argued: that the natural resources from which the wealth of the nation is created belongs to all the people.

In forming an equitable and sound monetary system, its management must be by the Federal government. That seemingly is the way the Founding Fathers saw it, as they gave this most important power: to coin money and regulate the value thereof, exclusively to congress. However that has not been the way many if not all congresses have viewed it, as for much of the Nation's history, they all more or less have denied themselves this most important responsibility.[13]

[13] As the Nation's technology advanced and its economy became more integrated, congress could no longer deny this responsibility, as became most evident with the Great Depression. But rather than accepting this responsibility, congress historically chose to muddle along doing such things as establishing the national

Without going too far afield, we may identify these natural resources: First is the earth itself: the land we stand on and on which our shelters are built, and the farms and ranches that produce the food and fiber that sustains us; the rivers, lakes and oceans that are also sources of our food and fiber but are more as they are large sources of the fluid that sustains life itself as well as serving as avenues of transportation and areas of recreation; the air we breathe but also that which is a great avenue of communication and transportation.

To continue with that which nature bestowed upon us: the earth also holds many elements that through knowledge and technology are a fundamental part of our modern way of life. But added to that which nature provides is the knowledge and technology brought forth by those who have gone before that has so much enhanced our way of life over that a mere two centuries ago. In almost all cases, that knowledge and the useful inventions derived there-from has since passed the monopolistic right assigned by law to the one that first brought such knowledge forth. But this applies not solely to invention as derived through patent law but also knowledge passed through copyright law.

These are the things we all have rights to. But in consequence of our industrialized world and not simply the reasonableness of but the necessity for John Locke's ideas of the protection of private property as an essential facet of our economic system, we all must have some means by which we can enjoy the fruits of our world as they are defined here. One obvious means is that which some amongst us have on occasion referred to as "economic rent". Here this right of the governed through their government to this base of revenue is referred to as "economic rent".

However, many of those that accept this sound argument for "economic rent" then proceed to wrongly claim it solely for the administration of government, not for the people themselves. In making this claim, they argue support from such eminent individuals as Henry George. But as Mr. George brought forth this concept of "economic rent" it was only to apply to land and then only on that land whose value was being enhanced as the local community increased in population and wealth. Only secondarily does it appear that this "economic rent" was suggested as a means of support of government and then presumably only that of the states and local governments where this value was being enhanced.

Additionally when Mr. George brought forth his concept of "economic rent" the nation was passing through a far different age, one that did not have near the theft that our present governments have. But even if those that administer our governments had not engaged this theft, this argument of using this "economic rent" for government administration would not fit in a universal ownership of the earth, as for example postulated in the phrase: "The earth belongs to all."

To better see the wrongness of this view of "economic rent" solely for support of government and not for return to the people, we might draw an analog to an agent of a

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banks and the comptroller of the currency during the Civil War, reissuing US notes (greenbacks) and re-monetizing silver in the latter part of the 1800s, and insuring deposit accounts in the 1930s.

Obviously none of these things has compensated for these congresses assigning this most important power to a privileged private entity, as most evident in this most resent financial crisis and the great distress it has caused to so many amongst us. Furthermore, such action by congress can hardly be viewed otherwise than illegal in view of the seemingly obvious fact that congress cannot abrogate powers solely assigned to it.

landlord who collects the rent from the tenant and then keeps the proceeds arguing that he in doing so best serves the interest of his employer. This done without the consent of the landlord is an obvious perversion of this agent's charge and it is reasonably presumptive to conclude that such an act would be done without the direct intercourse of the electorate.

But if done now and even at the state and local government level it would be after those in these governments have perverted our governmental system with permanent employment, pensions, and other privileges clearly not available to those of us that remain in the non-governmental sectors. This perverted theft and its consequences, as it has taken place over the last half century, is explicitly shown in the national accounts in the article: "Federal Money – The Corruption Of The States".[14] It is these facets of our present governments at all levels that cause a clear separation between the governing and the governed. That is opposite to President Lincoln's famous parlance that ours is *a government of the people, by the people and for the people*.

The proper means is of course to place this "economic rent" directly in the hands of the people through the Federal government as the agent of collection and disbursement although not denying the states and local governments some similar but not overlapping right. That is the object of the National Dividend in *A Plan For America*.

The source of revenue to the Federal government for this direct disbursement to the people is obtained through two means: the seigniorage of money creation and the Federal revenue system. With congress properly exercising its constitutional power, I have estimated elsewhere, the amount derived from the seigniorage from money creation to be roughly between 2 and 3 percent of the Nation's Gross Domestic Product or about 20 percent of the amount put forth for the National Dividend in A Plan For America.[15] The remaining roughly 80 percent is to be obtained largely through a highly progressive income tax, not so different from that existing during the recovery years of the Great Depression and World War II and shortly after.

A highly progressive income tax has many claims though the importance of these claims is not necessarily in the order cited. We might begin with the mere fact that much of the large earnings by the richest amongst us come from the transfer of money through charges on money and/or rent on physical assets. Transferring money through the ownership of money, often and properly referred to as usury, has been acknowledged by almost all major religions as wrong for the total in which we have a record of history. Only with the more recent propaganda, mainly by the sycophants that serve the interests of the constitutionally illegal financial industry, has this wrongness been perverted as something sacred.

A second claim, which associates closely with this first cited claim, is that the personal income tax fairly disburses money obtained through monopolistic means. Entertainers, for example, sports stars, movie stars, and even heads of the mega corporations fall into this category. Clearly this source of income by these "stars" is drawn from a large segment of society seeking to enjoy the performance of the "best" amongst us in these

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[14] APFA Paper # 23: Federal Money – The Corruption Of The States (anewplanforamerica.com).

[15] For the projected GNP equal to $15.7 trillion for the 2009 calendar year, I estimated this growth in money quantity to be $440 billion or $2,000 for each of the then 215 million electorate, A Plan For America, cited above (Pg. 658).

somewhat silly endeavors. In truth, this large gain for this small number is only through a somewhat natural monopoly position.

We may see this better from our competitive professional sports teams and by understanding that the skills of those participants that gain in the tens of millions of dollars over many years are only nominally more skilled than those that gain a few hundred thousand dollars and then for only a few years. In fact the skill differences of the participants are not perceptive except through direct competition for when the very elite of the participants are removed from their profession new "stars" arrive and the former fade into history. In fact it is not far fetched to suggest that if these elite "stars" never existed, the "games" would continue to draw as they now do. Hence it is reasonable to conclude that those that draw these fantastic monetary gains do not provide even a remote contribution to the wellbeing of society.

A third claim is that allowing large quantities of the nation's money to remain in the hands of the few distorts the money to debt ratio, as expressed by the equation: M1/(M3-M1). It also defeats the purpose of the first claim, as it remains an unfair source of income recognized by all major religions throughout the record of history as immoral. Associated with this claim is the great mischief done through the false knowledge that comes forth from the many think tanks and others that draw their support from these members of society engaged in these immoral dealings. We may couple onto this the great mischief that comes from their lobbyists and other more overt means of corrupting the high government officials, elected and otherwise, that now serve these demons with wealth rather than the people at large.

We have strong empirical evidence to draw on in support of a highly progressive income tax as most beneficial to the great number of society in the first decade following World War II. Most importantly this was when the nation experienced its greatest economic growth and its fairest distribution of its created wealth: In 1949, M1/(M3-M1) was near 1.83 with M1 approximately 41.5 percent of GNP and M3-M1 22.7 percent of GNP while the top income tax bracket was at 90 percent. It is through a proper management of the monetary system, a progressive income tax, and the National Dividend as set forth in *A Plan For America* that these conditions can be achieved.