



An Americanist Economic Perspective

The New American: *With all the calls for bailouts, first for the financial sector and now for the auto industry, Americans are confused. We've been hearing that these bailouts are necessary to save the economy, but everyone understands that they will impose an enormous tax burden on future generations. Our political leaders want us to believe that there are no alternatives, that bailouts are a lesser evil to prevent greater ones down the road. How do you answer that?*



Art Thompson: Recently, I saw a pundit on a major television network discussing the 2008 panic and advocating as a solution "a little socialism now to prevent a lot of socialism later." Those were his exact words. This particular commentator was more candid than most. The words used most often by the media in their "solutions" are "more regulation," "better management," and/or "more controls" by government. All of these amount to "a little socialism." But "a little socialism" is just another term for fascism.

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Whether it is fascism or full-blown socialism, the stated objective is to control the economy. But when the government attempts to control the economy, for whatever reason, what necessarily end up being controlled are the real actions of the honest, hardworking people whose economic decisions taken in sum comprise the economy as a whole.

But even the most thoroughgoing despotism lacks the analytical and theoretical tools necessary to direct the economic lives of all the people who make up the larger economy of a nation. The more tightly a government attempts to control economic behavior, the worse economic activity is hampered and distorted. This is particularly true in large, populous nations, which because of their size are more difficult to manipulate economically than small nations.

The more controls on an economy, the poorer the economy becomes. We need no better example than the Union of Soviet Socialist Republics, or USSR. The Soviets had very sophisticated state planning (if there can be such a thing), and quite publicly and solemnly pronounced their intention to carry out each "five year plan" for economic improvement of the nation. The planning bureaucracy, though, was never able to plan its way into economic growth and stability, and the Soviet economy collapsed after a long period of stagnation and decline.



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In a socialist regime, those who control the economy — political leaders and well-connected financial elites — tend to become, as Orwell once put it in *Animal Farm*, "more equal than others." The rich get richer and the poor get poorer. Those who would normally be the entrepreneurs in a free society realize that in a government-controlled economy the only way to get ahead is to become part of the system — the economic command structure, so to speak — and not rock the boat.

Whatever they call it — socialism, regulation, management, or controls — centralized economic planning will always be detrimental to the people and the economy, although it will always be sold as a benefit for the people. The current regime of bailouts, if not discontinued, will be catastrophic for our economy and our liberties in the long run.

Our bottom line is that economic solutions need to be based on liberty and permissible under the U.S. Constitution.

TNA: *What solutions is the JBS proposing?*

Thompson: We advocate backing our currency with a precious-metal standard, becoming energy-independent, stopping all government spending not authorized by the Constitution, halting foreign aid, blocking illegal immigration, growing the middle class, eliminating the income tax, and getting rid of our central banking system.

TNA: *This magazine has reported on all of these topics over the years. Let's take a look at each one. The first one you mentioned was backing the dollar with a precious metal. Are you calling for a return to the gold standard?*

Thompson: As long as it is a precious metal that meets the criteria for commodity money, it doesn't have to be just gold. Sound money in the hands of the individual is not simply a means of fair exchange for goods or services; it is a large part of being free. And this is why, in Article I, Section 8, the Constitution grants the power to Congress to produce and protect the value of money. The exact wording is "to coin money," implying gold or silver; not paper money with an arbitrary value established by government fiat.

Our Founding Fathers had experience with the hazards of printed money during the Revolutionary War. They knew that unbacked money was a recipe for inflation that would destroy the nation's wealth, and they were adamant, both before and after the adoption of the Constitution, that paper money was not to be issued by the federal government. They even stipulated, in Article I, Section 10 of the Constitution, that the states could only make gold or silver coin as a legal tender in the payment of debts.

If money is gold or silver, or backed by gold or silver, the value of money will remain more or less constant, and people's money will be free from manipulation by moneyed interests. In a fiat-money system, by contrast, some controlling agency, usually a central bank like the Federal Reserve, manages the value of the currency. The value of the money in your pocket and in your savings accounts is not constant, but subject to the self-serving whims and policies of an elite few. That certainly is not conducive to freedom and independence for anyone other than the central bankers and well-connected special interests that benefit from their monetary policies.

Gold is a very good commodity to use for money because (among other reasons) it is very scarce, making it impossible for governments or central bankers to manipulate its supply. And money backed by gold must be strictly limited in issue or the government will rob the people by means of inflation. For instance, the greenback, the Civil War issue, robbed the American citizens in the Union of 50 percent of their wealth in three years through inflation.



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Because gold and silver is given countenance by the U.S. Constitution, and because such money would act as a check on the power of the government and powerful special interests who will otherwise debase our money, the restoration of gold and silver as money should be the first logical step toward the restoration of sound economics.

TNA: *Moving on to the second topic, how does the United States become energy-independent?*

Thompson: Each year billions of dollars are sucked out of the American economy by the purchase of foreign oil and gas. Much of this money ends up in the hands of governments and people who are the enemies of our country. These dollars are then used to compete in many ways with our businesses, workers, military, etc.

Yet America has the ability to achieve energy independence by further harnessing our own energy resources, from the oil along our Outer Continental Shelf and in Alaska (much of which is now off-limits to drilling) to nuclear power.

So energy independence is a political issue, but it's also an economic one. We cannot establish our own future if we are sending money out of the country and are beholden to others for our energy needs.

TNA: *Unfortunately the government didn't listen to the voters when it decided to pass the bailout bill for Wall Street.*

Thompson: That brings me to the next step: stop government spending, at least spending not sanctioned by the very limited writ of authority in the Constitution (and that means most things the federal government spends money on these days!). One of the cruelest and most misguided ideas for stimulating an economy is to promote government spending as part of any stimulus plan. In reality, there are only two things that a government can do to stimulate an economy: cut government spending and reduce or eliminate government regulation.

A solid case can be made that we would not be in trouble economically if government would have stayed out of the business of private business. Since the Civil War in particular, the federal government has taken unto itself more and more control over the free-enterprise system that has made this country economically great. As the government has accumulated power over private enterprise, the number and severity of economic crises has grown and the rate of economic growth has decreased.

This has happened because, with more economic regimentation, the many variables that stimulate economic growth, such as new inventions, new services, new allocations of capital, business startups, etc., did not occur at all or as frequently as they should have. Would-be inventors, risk takers, entrepreneurs, and investors decided that, because of regulatory barriers and other forms of government interference in the workings of the market, going ahead with an investment, innovation, or startup was not worth the effort. This is why economies in communist and socialist societies atrophy over time.

But economics aside, the federal government must be brought back to within proper constitutional limits. That means relinquishing our far-flung empire and bringing our troops home. It means abolishing every unconstitutional department of the federal government. It means getting the government out of grant making and funding the arts and sciences. It means no more \$700 billion bailouts. It means less regulation and many thousands fewer bureaucrats. It means putting a stop to federal foreign aid. When these things happen, then federal spending will decrease and the resulting distortions of the market will be radically diminished. We, the taxpayers, will have more money in our pockets, and more freedom to use that money.



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Only then will we be back on the road to greater freedom and prosperity.

TNA: *You also mentioned foreign aid earlier.*

Thompson: Since the United States is sustaining a deficit that increases daily, it makes no sense to send foreign aid to approximately 150 countries, especially when far too much of this aid ends up in the bank accounts of the leaders of the countries that receive the aid.

Foreign aid, in any form, is a moral decision. If people need help, it should be done privately, through charitable organizations such as religious organizations, typically the largest and most effective charities — the Salvation Army, for example, and a multitude of other humanitarian groups. And when it is privately donated and managed, the aid gets to the individuals in need. If the need is there, American citizens always rise to the occasion. American citizens, by a large margin, are the most generous people on the planet, according to a recent report by the Hudson Institute.

If we allow government to get involved, as we have seen time after time, the aid always seems to benefit the few and can end up in private bank accounts. In some cases, foreign aid, including food aid, has been used to prop up petty dictators. This has not endeared us to their citizenries and has led some of these nations to rise up and embrace our enemies as a result.

It is not only unconstitutional, but also wrong in principle for our government to take money from our citizens and give it to other countries, with the possible exception of during a war properly declared by Congress, and then only as direct assistance for our fighting forces.

There will always be well-meaning arguments for foreign aid, and many times they will tug at the heartstrings of good people, but we must remember that every cent of federally funded foreign aid was collected forcibly, through taxation, and that the Constitution does not authorize dispensing taxpayer monies to foreign countries. Foreign aid, like all government programs, is coercive, not voluntary. Private, voluntary charity will always cost less than foreign aid and will usually go to those who need it most.

TNA: *So how does illegal immigration play a role in economic revival?*

Thompson: While it may not seem that illegal immigration has anything to do with economic recovery, it does in fact have several important effects on the economy.

First of all, illegal immigration itself on such a vast scale constitutes an invasion. Such events can overturn governments and societies alike. It happened after the Goths invaded the Roman Empire (technically, they were invited to immigrate en masse, and only turned hostile once inside Roman



borders), and it is happening in modern-day America.

Subsidizing illegal immigrants' medical care, schooling, and housing costs American taxpayers billions of dollars per year.

The burdens on hospitals alone have been extraordinary and the costs staggering. In California in 2004, for example, the cost for unreimbursed healthcare was estimated at \$1.4 billion, according to the Federation for American Immigration Reform.

Many mortgage failures in the real estate crash occurred because lenders enticed illegals who did not understand the ensuing obligations to take out subprime home loans. Subprime lenders made a special effort to induce immigrants, legal or illegal, to take out such loans, as columnist Michelle Malkin has pointed out.

Such costs have become a significant drag on the U.S. economy because they mean less money in the pockets of American citizens.

Another very important aspect of illegal immigration is the economic and social cost of increasing crime. While most illegal immigrants are workers displaced by internationalist economic policies like NAFTA and by misbegotten policies of their own governments, there is also a significant criminal element exploiting America's open borders to commit crimes of every variety, from drug trafficking to murder. Additionally, large numbers of illegals drive illegally and irresponsibly; I had two friends that were killed in two separate incidents by errant aliens in car accidents. In both cases, the perpetrators fled the country to avoid vehicular manslaughter charges.

None of this is to say that we should build a wall around the United States and prevent any and all immigration. It is only to recognize the fact that in the United States today, immigration is no longer under control. As a result, immigrants and American citizens alike suffer. The immigration problem has grown so big that, unless dealt with, it will prove an impediment to economic recovery and an obstacle to future economic growth.

TNA: *The poor and the middle class appear to be bearing the brunt of this latest recession. Comment?*

Thompson: True enough, but it's important to understand that the middle class is actually under deliberate attack, and has been for generations.

The middle class has always been a threat to those who covet absolute power, because of their ability to challenge both the economic and political status quo. Most of the American Founders were middle-class merchants, farmers, and craftsmen. The middle class creates vast amounts of new wealth, and because



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of sheer numbers, can make its voice heard loud and clear in politics, whether the oligarchs wish to hear them or not. The middle class, with its new money and education, has always been reflexively hostile to government. Serfdom is kept at bay wherever there is a strong and vibrant middle class, and the concentration of power in too few hands is usually kept in check. On the other hand, in authoritarian countries, the middle class is weak and nonexistent. There is a huge concentration of wealth in the hands of a few at the top, and almost everyone else is poor.

The American middle class produces new products, provides new services, creates jobs, etc., but only insofar as they are free to do it. Yet now we are told that more regulation will solve our economic problems, that by regulating business (which really means putting controls on the actions of the middle class), government is doing the people a great service.

But if government continues to visit more and more regulations upon the middle class, soon there will be no middle class. And that is the point. The people who want to socialize high finance and Wall Street also want to regulate all business on Main Street. They will destroy the middle class in the process. And this is precisely what some of them want to accomplish.

The reason that we need to stop government from regulating and nationalizing business has as much to do with our future as a free country as it does with encouraging economic growth. When the middle class grows and prospers, the country benefits both politically and economically.

TNA: *Probably if asked what the greatest obstacle to personal prosperity is in this country, a lot of middle-class Americans would mention the income tax and the IRS. What's your take on the income tax?*

Thompson: Well, if the income tax were eliminated, the economy would be stimulated to unprecedented levels.

Our Founding Fathers wrote the Constitution so that the federal government could not impose direct taxes — like the income tax — on the people. Nevertheless, a federal income tax was imposed for the first time during the Civil War and attempted again later on, but each time was declared unconstitutional.

This all changed with the adoption of the 16th Amendment, which made legal, if not legitimate, the heavy progressive income tax America is saddled with today.

The personal income tax is only a small portion of what the federal government takes monetarily from the people, but it can be very important as part of a stimulus package if it's eliminated.

The cumulative cost of the income tax adds greatly to the cost of services and products. Imagine the tax on miners, truckers, manufacturing employees, management, salesmen, and the clerks at the store where you purchase the end product, all factored into the cost at the checkout counter. Eliminate the income tax and prices will be reduced dramatically.

If we want to fix our economy, then we need to end the income tax.

TNA: *You also advocate getting rid of the Federal Reserve. How can that possibly help the economy?*

Thompson: Throughout history, and especially in modern times, inflation has taken a heavy toll on many civilizations and countries. The over issuance of paper, particularly if it's not redeemable in any intrinsic metal (what economists call "fiat money"), results in higher prices for products and services, and is marked by a general devaluation of the currency. As a result, a powerful, well-connected few get away with stealing from their own countrymen by printing money to finance grandiose government-sponsored projects like wars — and then letting the little guy take the fall later on in the form of rising



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prices that erode the value of savings and cause the cost of living to rise.

For instance, if the currency in circulation were doubled, the value of the currency would be cut in half and goods and services would cost twice as much. In a declining economy, where goods are produced in less quantity, the situation is exacerbated.

For the politician and the totalitarian-leaning bureaucrat, printing fiat money (which is what inflation really is; rising prices are the effect of inflation, not inflation per se) is attractive because it allows government to spend money without raising taxes overtly. Inflation is a form of tax, but a particularly dishonest one because it isn't advertised as such and because very few people understand how the process works. Politicians and those in control of the money supply understand that the citizenry will resist heavy direct taxes, so they often turn to inflation to finance projects that the public would not be willing to pay for any other way. Also, because the way that central banks like the Federal Reserve introduce new money into circulation is by the creation of more debt, inflation causes national debts and deficits to soar.

In the Federal Reserve Act of 1913, Congress gave the power to issue fiat paper currency to a new, quasi-private entity called the Federal Reserve. Since then we have experienced constant inflation, such that the dollar's value has depreciated by more than 90 percent. We've also experienced unprecedented boom-and-bust cycles, like the Roaring Twenties followed by the Great Depression, all of which were engineered by the Federal Reserve, with some help from the Treasury Department and other central banks overseas.

The financial and economic crisis of 2008 did not come as a surprise to those who keep an eye on the activities of the Federal Reserve. The writing was on the wall, as we pointed out in *The New American* years ago. Other analysts likewise saw that the radical inflation of the money supply that accelerated in the last decade would lead to terrible economic turmoil. And now that the inevitable recession is well underway, taking correct measures will be very difficult because of widespread ignorance of how our financial system works.

We cannot allow a system of fiat money to operate and expect to stay a free people. This is because, as we are seeing now, each new contrived financial crisis is used as a pretext for more government controls — government proposing to solve problems it created in the first place, and by the only means that government has at its disposal: more government. The reckless inflationary policies of Germany during World War I led to complete destruction of the German mark in the early '20s, wiping out German financial markets and personal savings alike. In the turmoil that followed, Germany eventually succumbed to the Nazi dictatorship. Allowing central bankers and politicians to play games with the money supply is like playing with fire. Sooner or later, when the crisis arrives, people are easily stampeded into serfdom. It happened in Germany and it can happen here, if the Federal Reserve System isn't abolished and the dollar returned to a gold or some other precious-metal standard.

One final thought: people don't usually think of the U.S. Constitution as an economic document, but simply observing strict constitutional limits on the scope of the federal government would go a long way toward solving the current crisis. We'd have to return to a precious-metal standard and abolish the Federal Reserve; abolish most of the federal regulatory apparatus; cease giving handouts to illegal aliens; repeal the 16th Amendment and get rid of the federal income tax and the IRS; and only get involved in wars and other military activity overseas authorized by a congressional declaration. And that's just for starters. If the Constitution were strictly observed, the size (and therefore the cost as well) of the federal government would shrink to a fraction of what it is now. Americans would have a lot



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more money in their pockets and, free from alphabet-soup agencies regulating and watching their every move, would be much more willing to launch businesses and other wealth-creating enterprises. Also, predatory special interests would evaporate with the end of the spoils system now in place. This isn't to say that things would be perfect, but returning to constitutional government would be a tremendous step in the right direction.

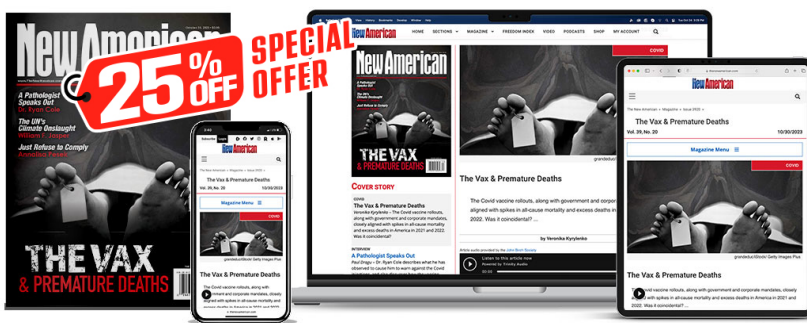


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