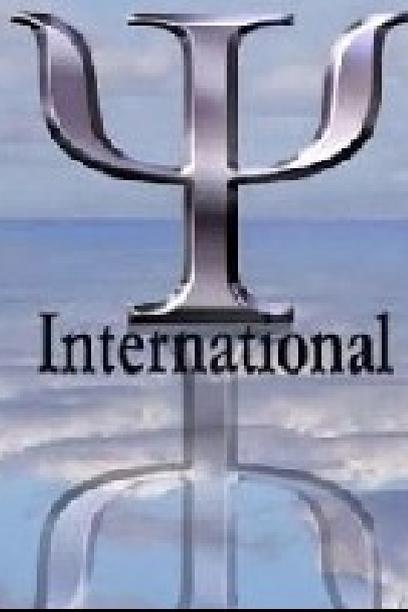


# Keynesian Economics and its relationship to the building economic problems in Western Civilization

David J. Pristash  
1 February 2019

PRINCIPIA  
SCIENTIFIC



International

This was published as a PROM paper in 2013  
See [Principia-scientific.org](http://Principia-scientific.org) under  
'SUPPORT/NEWS' 'HOW THE PROM PROCESSWORKS'

# **Keynesian Economics and its relationship to the building economic problems in Western Civilization**

**David J. Pristash, BBA, EMBA**

**Summer 2011  
Revised April 2013**

## **ABSTRACT**

Most countries that are considered to be a part of "Western Civilization" are now in severe economic distress; in my opinion as a result of following the theories of John Maynard Keynes, now known as "Keynesian Economics". The politicians in our countries follow Keynes' theories because they give them the justification for powerful central governments that are active in the economies of the countries which they then try to manage. The purpose for writing this paper is to show how those in power wish to use Keynesian Economics to change our way of life to something we have not collectively agreed to. They have been able to do this by suppressing the errors in Keynes theories so they can link him with President Roosevelt who is credited with ending the Great Depression to advance their cause.

Politicians love power; they would not be in politics otherwise. In the study of political philosophy and also economics one learns that power is addictive and once in the game more is an end in itself to those that play. Their goal has always been to get the citizens to give up more, if not all, of their freedom such that at some point they have no more to give.

Political philosophers and economists from Plato and Aristotle through Cicero and Augustine through Aquinas and Machiavelli through Hobbes and Locke through Rousseau and Smith through de Tocqueville and Marx and finally to Keynes and Friedman have looked at all sides of these political and economic issues from every angle possible. We actually do know what works and what doesn't work with a great deal of certainty but yet we have made the same political and economic mistakes over and over again for the past 3,000 years. Worse, we are doing it again right now as this paper is being written.

We will show the critical errors in Keynes' work and how the politicians have ignored those errors so they can push an agenda that is not in the best interests of the citizens.

## 1. Introduction

In this short paper we will try to show what changes have occurred in America and the Western Civilization over the past 100 or so years and how those changes have lead to the economic problems that so much of the world is now experiencing. The reasons we are where we are, are both theoretical and practical since they involve the social sciences mainly of politics and economics which are not constructed of hard and fast rules. A full analysis of our current situation would require years of study in multiple fields and that is why the identification of the various causes are, in general, so illusive to us. What we will try and accomplish in this paper is the identification of some of the [proximate](#) causes of the Great Depression of the 1930's and the Great Recession that started in 2008, which we are now still in and then show how both events are related and what the single [ultimate](#) cause of both is.

At the core of what transpires in any society is the system of governance that we live under and this is what is called the study of [political philosophy](#) which is closely related to [Moral Philosophy](#) also known as ethics. Most of the problems and issues that we experience come back to this subject and are therefore the [ultimate](#) cause of most, if not all, of the situations we find ourselves in both now and in the past. It is critical when considering changes or fixes to some perceived problem to first understand the problem and then to change or fix the real problem ([ultimate](#) cause) not the apparent problem ([proximate](#) cause). This principle of finding the real problem is learned very quickly when debugging or trouble shooting real things and not so when dealing in intangible things. Therefore we start with a few paragraphs on politics then move into how economics can be distorted by politicians' and then lastly a discussion on how this transformation we are now in all started some 100 years ago.

## 2. Discussion on Political Philosophy

When one studies [political philosophy](#) you must start with the writings of Aristotle and Plato and what you find with some refinements over the centuries is there are only so many ways that a society can function. Despite knowing more now than back then and having much greater control of our world through technology there has been no discernable change in mankind. What drove men back then is no different that what drives men today. Being blunt and according to Machiavelli conquest of territory and other leaders taking their property and acquiring their women **(1)** is what drives those that quest for power and the worst of them are those that want all of the above.

Convolutd theories of government and the relationships of the masses and the rulers have occupied the minds of some of our brightest thinkers over the past almost 3,000 years. Monarchies, democracies, republics, kings, tyrants, presidents, princes and emperors are but a few of the titles and concepts developed. Until the founding of the United States it was generally accepted that the only form of government that would work was some form of monarchy, where the head of the government had very strong power which was required to rule properly. The worst form of government was universally considered to be a democracy where the common man would confiscate all the wealth of the rich and destroy the country in the process. W. Cleon Skousen describes this issue very well in his book the Five Thousand Year Leap first published in 1981 **(2)**.

The next most important question was who gets to participate in the government and who gets to make decisions. The consensus was that the common man was not capable of self government and that therefore only a monarchy with a ruling class of elites could make a lasting government, for the common good of course. Alexis de Tocqueville a French aristocrat touring the United States in the 1830's was very surprised by the knowledge **(3)** the common man had about the U.S. government although it must be said that he did not think in the long run it would last. However, in principle the Americans did show that with proper controls self rule was possible.

Alan Ryan has written an excellent summary of this process in terms that an educated person (not necessarily in politics and government) can understand. It's a two book set *On Politics, A history of Political thought from Herodotus to the Present* published in 2012. Ryan tells us about all the various forms and methods that have been tried over the centuries and although this may not be his thought it seems to me that the American experiment which effectively ended at the end of the twentieth century was the best form ever conceived. Unfortunately those that desire to rule always find a way to achieve it and all past history shows that all democracies and most republics end up with either a dictator or a tyrant in charge. In my opinion America is in this kind of transition right now and although it may not be obvious to most it is to anyone that has seriously studied political history. Power is now being concentrated in Washington at a furious rate and the area around Washington is almost the only place in the country where jobs are being created in any meaningful numbers.

Political power draws to it, like a powerful magnet those that want to influence the power holders. And the older the political system is the more the power congeals around the center of government. In the past the inevitable concentration could take centuries as there were no reliable means of communications; no printing presses no electricity and no world wide web. Today it can happen very quickly. For an example in America over the past twenty years we have all but eliminated the [U.S. Constitution](#) with laws raging from hate crimes through the patriot act then healthcare and now gun control and limits on free speech. The summation of all these laws and their eventual broadened interpretation will be a nullification of the [Bill-of-Rights](#) and a subversion of most of the key principles in the [U.S. Constitution](#).

For example today we are debating whether American citizens can be assassinated overseas by drone strikes. We are told that this is permitted because they are terrorists and they have taken up arms against the country. Whether that is true or not the [U.S. Constitution](#) is very clear that this is not permitted the fourth, fifth, sixth, seventh and eighth amendments speak directly to this issue. The citizens were very aware of this potential issue since political assassinations were the norm for most of recorded history. Machiavelli even wrote in his 1513 work *The Prince* that a ruler should kill all of the family of the former rulers **(4)** to prevent future problems of any area or country he had conquered.

This remote killing of terrorists may seem a small thing but the simple solution would be to call for a [FISA Court](#) action or a [trial in absentia](#) on treason that has a death penalty. Another way would be to strip U.S. citizenship from any one that takes up arms against the [U.S. Constitution](#) and then an assassination would be at least somewhat legal. As it is now the President could call a drone strike on anyone by declaring them a terrorist and with the hate crimes laws now in place as well as the government declaring the entire world the battle field that isn't all that far fetched as it would then be very easy to assassinate them while they were in the country. Small steps taken each seemingly to be very reasonable but leading up to the very things we made the [U.S. Constitution](#) and [Bill-of-Rights](#) to protect against. This paragraph shows how a series of unrelated actions can lead to a bad result and this is a prime example of what happens with a too large federal Government.

The bottom line here is that there are and always will be those in society that desire power and further they wish to rule the rest of us for no other reason then they desire that power above all else. They want the [sovereignty](#) in essence the power of life and death for all that they hold under their rule. Angelo M. Codevilla wrote an excellent book which is easy to read and understand called *The Ruling Class how they corrupted America and what we can do about it* published in 2010. Reading that book and two others the first written by Saul D. Alinsky *Rules for Radicals A pragmatic Primer for Realistic Radicals* first published in 1971 and the second *The Prince* written by Niccolo Machiavelli in 1513 will give the student a good background for understanding what motivates these people. Or more importantly what motivates those that desire to rule, those that want the [sovereignty](#).

### 3. Background, how all our problems started

[John Maynard Keynes](#), an English mathematician (not either an economist or a political philosopher), developed a comprehensive set of theories during the early stages of the [Great Depression](#) that were published in his 1935 book titled *The General Theory of Employment Interest, and Money*. Keynes developed his theories in an attempt to explain why we had the Great Depression and how he thought we could get out of it and further to prevent like contractions from happening again. His theories of an active federal government and government spending from taxed or borrowed money are the bases that our government is using today in an attempt at getting us out of the jobs predicament that we have now which is much like the situation that existed in the mid 1930s.

The General Theory was designed by Keynes to replace Laissez-faire (minimum government) economics as first promoted by [Adam Smith](#) in his 1776 book *An Inquiry into the Nature and the Causes of the Wealth of Nations*. Which was actually a follow on book to his first book *The Theory of Moral Sentiments* published in 1759; the two books fit well together and should be taken and studied as a set. Smith's free market is the exact opposite of Keynes' views that included that savings were bad and that an active government should borrow money to spend during a down turn and then (maybe) pay it off on the upside. Although there was some good in Keynes' work all the politicians back then heard was that savings were bad so that gave them the economic justification to tax wealth and even worse, if that was possible, that [deficit spending](#) was "required" to promote consumption and that by doing these things it would bring the economy to full employment. Combined with the activist government concept this was a license to go wild as this justified anything the politicians wanted to do as long as it was paid for with a tax, as we recently found out with the [Supreme Court](#) ruling on the [Health Care and Education Reconciliation Act Of 2010](#) or Obama Care as it is now known.

In the early 30's as the economic contraction continued to deepen the citizens decided to try new leadership and [Franklin D. Roosevelt](#) (FDR) was elected in November 1932. However, between the times he was elected in November 1932 and took office in March 1933, the worst of the three banking contractions of the Great Depression started in January 1933. Drastic action was required and during the next two years FDR's program was known as the [New Deal](#) which actually ended up being two programs the first New Deal (One) from 1933-1934 that was not working as planned. Then in 1935 a second and much more controversial New Deal (Two) 1935-1938 was instituted presumably this was based on Keynes' radical new theories which gave Roosevelt the economic justification for what he was doing and what would, in time, become known as [Keynesian Economics](#).

Technically the programs of FDR didn't work but the citizens saw the government doing things and they gave the government the credit for the small recovery that occurred. Back then just as what happens today -- in politics --- the politician takes all the credit for any good that occurs and blame others for all the bad. The outbreak of [World War II](#) in Europe is what really got us out of the [Great Depression](#) as the United States sold war material to the allies with [Lend Lease](#). Then after the war the pent up demand for civilian goods that had been repressed along with the massive rebuilding efforts of Europe's [Marshal Plan](#) and Asia's [GARIOA](#) is actually what drove the economy for several decades. Keynes and FDR got the credit even though the theory was wrong and FDR's policy didn't work. However what actually caused the banking collapse in America that started this black ball rolling was never fully understood by economists and so Keynes views took hold in the economic community; it would not be until 18 years after the end of World War II before the truth would be known.

[Milton Friedman](#) along with [Anna Schwartz](#) published an almost 900 page book in 1963 titled *A Monetary History of the United States, 1867-1960* which along with other works of Friedman's got him a Nobel Prize in Economics in 1976. Friedman and Schwartz showed how the Great Depression was caused by the actions, or more properly the inactions, of the Federal Reserve, first in allowing the credit bubble that led to the [stock market collapse in 1929](#) (excusable with the knowledge of the times) and then in collapsing the U.S. banking system (not excusable under any circumstances) by not following the methods that were then known for preventing this very thing from happening. Keep in mind that preventing a monetary contraction or a series of banking failures was the stated main purpose for creating the Federal Reserve in 1913. This work of theirs was the first explanation of what actually caused the [Great Depression](#) and this solved the issue which had puzzled economists for almost 30 years. This work of Friedman and later works by others, as well, showed how Keynes was wrong about savings and deficit spending. **This is a very critical finding as Keynes views on economics and FDR's policies were accepted as gospel and those policies have now taken us to the very edge of world wide economic collapse.**

A side note with relevance here is that when the [Federal Reserve](#) (FED) was formed by an act of congress (HR 7837) and signed into law as Pub. L. 63-43 on December 23, 1913 a banker named [Benjamin Strong Jr.](#) one of those that developed the concept of the FED was appointed as the Governor of the [New York Federal Reserve bank](#) at that time. From its inception and until his untimely death in October 1928 he ran the New York FED which had the lead in monetary policies since most major transactions especially international were conducted in New York City where all the main U.S. banks were located. According to Friedman's work Strong did everything by the book and discounting minor ups and downs up until his death the economy ran as smoothly as could be expected as a result **(5)**.

Strong besides being a very knowledgeable man had a dynamic personality and others ended up in his shadow, so after his death the FED was reorganized to prevent one person from having the power that Strong had. His successor [George L. Harrison](#) although knowledgeable did not have the personality of Strong and with the FED operating rules being changed in March 1930 he was not able to do what he knew needed to be done so in 1930, 1931 and 1933 there were three waves of banking failures that swept across the country each worse than the preceding one. The result was almost total destruction of the United States banking system and the [Great Depression](#). Friedman states that if Strong had lived only a few more years, he died at 55, and if he had done what he had been doing while he was the Governor of the New York Federal Reserve that the [Great Depression](#) and all it destroyed would probably never have happened. Friedman did more than state that as his opinion he showed in detail **(6)** how the policies of the FED and the tools they had available to them were more than sufficient to accomplish the task of preventing the banking collapse which was the real cause of the [Great Depression](#) not the market collapse in 1929.

But the biggest kicker was that before the FED was established to prevent banking collapses the New York banks had come up with a method to stop these contractions on their own, and that it was used on occasion in particular a [market contraction in 1907](#),. Although the method wasn't handled perfectly the logic within it was sound **(7)**. The creation of the FED stopped banks individually from doing what needed to be done and established the FED as the only agency responsible for preventing banking contractions. The policies that should have been used were well known and had been used before so there was really no excuse for the FED to not allow Governor Harrison to do what he wanted to do. It was only the FED boards' members not wanting Harrison to follow in Strong's foot steps that created the [Great Depression](#). Sadly this is what big government always gets you 'politics' not what really needs to be done.

#### 4. Discussion on Keynesian Economics and its Core Problems

Without getting into all the gory economic details there are two major problems associated with [Keynesian Economics](#) one, active national governments and two, spending which may be the worst. The problem with spending, one of the key parts of an active government (meaning one that tries to control economic activities), is that all governments find it very easy to justify spending but impossible to not spend more and more once they start. Then when government spends with taxed or borrowed money it is incapable of spending on the right things (national defense being an exception) since all the spending is controlled by politics (meaning getting money into areas that will benefit their campaign contributors or buying votes such as entitlements) and the inherent bureaucracy and red tape means that it can not be done either quickly or efficiently. Friedman explains this very eloquently **(8)** in his 1980 book *Free To Choose* written with his wife [Rose](#) also an economist.

From the end of World War II until the present there was very little attention paid to Friedman's and Schwartz's work. Probably because after the War there wasn't much left in Europe or Asia and the United States was the dominant economic power in the world. Unfortunately this lulled the politicians and economists into thinking that Keynes's theories were correct and that a [utopian society](#) run by a powerful central government as envisioned by FDR could be developed --- and with that belief the modern [Social Welfare State](#) was born. National deficit spending in the Western world soon exploded to pay for it and that created a number of [financial bubbles](#) each larger than the previous leading us to the latest, which was the housing bubble or [the sub prime mortgage crises](#) which imploded in October 2008. Those that took power in 2009 that didn't study history (probably all of them) followed the same path that had been tried before and we are where we are today with no jobs as a result. The problem is that they have put us on a much worse bubble than that of [national debt](#). Since all bubbles must burst and this one involves debt issued by national governments and therefore sometimes referred to as sovereign debt it will be the worst one ever as nothing on this kind of scale has ever been done before.

Prior to the [Great Depression](#) international trade was to a large degree regulated by what is known as the [Gold Standard](#). Governor Strong understood the workings of this system of adjusting for currency differences between countries very well and this is one reason that Friedman knew that Strong would never have let the banking system collapse. [Gold](#) can be used as a store of [value](#): because it is rare, can not be counterfeited, is very inert and does not deteriorate. In international trade if a currency accumulates in one country e.g. dollars in China the Gold standard would allow the dollars to be exchanged for that country's Gold. The gold out flow forces the exchange rates and price levels in the two countries's to adjust. The adjustment stops the gold flow by making the price level lower in the country the gold is leaving and raising it in the country that is receiving it. If the US and China had been on the Gold standard it would have been impossible for the large loss of jobs to have happened. **By not allowing this to happen we in effect exported jobs instead of gold.**

[The American Recovery and Reinvestment Act of 2009](#) just like FDR's programs didn't solve the problem because the government created the problem to begin with and then made things worse by fixing the wrong problem. Gretchen Morgenson and Joshua Rosner in their 2011 book *Reckless Endangerment* showed how the government was a major player (if not the [ultimate cause](#)) in the creation of the housing bubble **(9)** and then Michael Grabel in his book *Money Well Spent? The Truth Behind The Trillion-Dollar Stimulus, The Biggest Economic Recovery Plan in History* shows, not intentionally, how the stimulus money was, to a large degree, squandered by following Keynesian principles **(10)**.

In both the 1929 and the 2008 events, the initial bubble was caused by the Federal Reserve and its (too) easy money policies that then led to a debt bubble which then proceeded to collapse as they always do. The politicians, not missing an opportunity, quickly blamed the bubble collapse problem on others, e.g. Wall Street; they were certainly not innocent and may have been the [proximate cause](#) in both the 1929 and the 2008 events but they were not the [ultimate cause](#). The solutions the government came up with in both cases were to ask for more power to manage things and then to conduct massive government spending programs (in both cases) that didn't address the core issues (the government itself) and therefore resulted in a prolonged jobless recovery (in both cases).

In the early 1930's after the crash when everything went to hell after the FED collapsed the banking system the government tried to spend its way out of the predicament that it, through the FED, had created. FDR's works programs did some good but that didn't fix the broken banking system and so it took WW II to get things moving again. Send the men to war instead of giving them jobs?

In 2009 after the crash when everything went to hell after the FED allowed the [sub prime mortgage/housing bubble](#) to develop the government put its stimulus money into pet projects and [earmarks](#) also known as "pork" that, as of today, have done very little to get the real jobs back. But very little was done to stop the home foreclosures that were destroying the built up wealth of the middle and lower classes (their home values) and which was the heart of the problem. Will it take another world war to fix the problem? On top of this they fixed a non-existent problem in the [Health Care and Education Reconciliation Act Of 2010](#) (Obama Care) that put a significant additional burden on business by making it a lot more expensive to have workers. This was clearly insane to do when the lack of jobs not health care was the problem in the country.

Most of the world is now involved in building another bubble this one of [sovereign debt](#); however it is split into two parts the [European Union](#) (EU) and the United States. They are very interlinked and not separateable but result from somewhat different circumstances. The EU [sovereign debt crisis](#) involves 16 countries and is being managed by a non-elected ruling body which has taken drastic steps over the past year in both Greece and Cyprus in conjunction with the [International monetary Fund](#) (IMF). Recent actions taken by the [European Central Bank](#) (ECB) in conjunction with the IMF in confiscation of bank deposits in Cyprus in return for sovereign debt loan refinancing have set a very bad precedence whose ramifications have not yet been fully recognized. National debt bubbles have almost always followed the path of confiscation of private wealth prior to the collapse; but previously these were isolated instances not a situation as now exists where almost every country in [Western Civilization](#) is involved. If this situation is allowed to continue the downside when the bubble bursts could be as bad as when the [Roman Empire collapsed](#) in 476 AD when [Odoacer](#) deposed [Romulus Augustulus](#) and proclaimed himself ruler of Italy.

In the United States the debt crises has been artfully hidden but it is there never-the-less. There are two parts to the "real" [U.S National debt](#) the first is the [obligations of the US Federal government](#) by the [U.S. Treasury](#) and the second the debt of the 50 states. Most sovereign states don't have a sub class in them but America is a republic made of 50 states so their obligations should be added to the federal to give the total debt load of the country. Ignoring the second in this work and focusing on the first we find that the actual liabilities of the federal government are significantly higher then the reported \$11.3 trillion shown in the 2014 budget for FY 2012 just issued as this paper was written since there is a large amount owed that has not been formalized into treasury bonds, for example as of the writing of this paper the United States Financial obligations are and were as follows. Compare the Obama 2014 budget value of \$11.3 trillion to that shown by the Treasury of \$17.5 trillion both for FY 2012 ending September 30 2012.

**Consolidated Balance Sheet  
U.S. Treasury FY 2008, September 30 2008**

Intra-government Liabilities (trust funds)	\$4,262,414,000,000.00
Money borrowed from the General Fund	\$667,112,000,000.00
Other Intra-government	\$14,509,000,000.00
Federal Debt and Interest Payable	\$5,812,694,000,000.00
Obligations domestic and international	\$32,746,000,000.00
Government payables	\$17,852,000,000.00
Earmarked Funds	\$309,711,000,000.00
 Grand Total	 \$11.117.038.000.000.00

**Consolidated Balance Sheet  
U.S. Treasury FY 2012, September 30 2012**

Intra-government Liabilities (trust funds)	\$4,861,005,000,000.00
Money borrowed from the General Fund	\$1,257,752,000,000.00
Other Intra-government	\$7,735,000,000.00
Federal Debt and Interest Payable	\$11,307,583,000,000.00
Obligations domestic and international	\$93,017,000,000.00
Government payables	\$5,374,000,000.00
Earmarked Funds	\$389,396,000,000.00
 Grand Total	 \$17.532.466.000.000.00

In four short years the Federal government has added \$6,415,428,000,000.00 which is over \$1.6 trillion per year by the governments own numbers, not mine. This kind of growth; not related to a major war, is unprecedented in all U.S. history. Further these numbers do not show the [Quantitative Easing](#) (QE) programs that have exploded the money supply since 2008. The QE method being done now is what should have been done in 1930 and was known about back then, this is nothing new. This time it is being over done and having little effect other than to begin to drive up prices. Many of us with economic backgrounds see this as the FED over compensating for the mistake they made in the early 30's by not doing QE. The total is now estimated to be \$18.2 Trillion although, only \$16.8 trillion is shown, as of March 2013 the sixth month in the current fiscal year,. At the current rate of spending we'll end up with somewhere over \$19.00 Trillion in Treasury obligations by the end of September 2013. This will represent a debt load of 120% of GDP and well into the danger zone.

**5. Discussion of Savings**

Now back to Keynes who made a critical error in his theories when he said that savings were bad and government should find ways to minimize them, for without savings there could be no investment and without investment there could be no growth. Although Keynes did agree that savings (S) equals investment (I) he also redefined how those numbers were derived and the bottom line was that he believed that if there were no savings that would give full employment --- and this was, in part, taken from [Karl Marx's](#) theories on [surplus value](#). In practice then with no real savings we would use up our capital stock and within a short period of time have no production everything would be broken and there would be nothing to replace it. [Mark Skousen](#) explains this **(11)** in his 2007 book *The Big Three in Economics Adam Smith Karl Mark and John Maynard Keynes*. The serious flaws in Keynes theoretical work were known about long before this book of Skousen was published.

The issue of savings was a major issue during the thirties as the U.S. banking system disintegrated. It was assumed by politicians and most economists that people were hoarding their money (hiding it under their mattress) and by doing so they were responsible for the shrinking money supply. Although some hoarding was sure to have happened the collapse of the banking system, by the FED's monetary policies conducted by the [Open Market Committee](#), was the real issue and blaming that on the citizens was without any justification or merit. Keynes developed a theory that was in part supported by Marx's views that all saving were inherently bad **(12)** as there could not be full employment with any saving being allowed. Keynes proposed that government make up for the spending short fall caused by savings by taxing at a higher rate and or borrowing or printing money. To justify this he created the government multiplier theory **(13)** which showed mathematically (Keynes was a mathematician) that if the government took money from the private sector and spent it that since the government spent 100% of what it took that that would be a boost to the economy because in the private sector some of that money would have been saved. The multiplier would then be a function of what Keynes called the [marginal propensity to consume](#).

This was a very popular theory taught in all the economics classes and forms the basis for much social welfare spending even today. Income redistribution is a form of this since it assumes the wealthy don't spend all their money and this is a drag on the economy. The fallacy of the idea is that without saving there is no investment. With no investment an economy would spiral down from where it was until its capital base was used up. The truth is that the wealthy spend a lot and the rest they invest mainly in government bonds. This flaw in the Keynes system is so obvious that no one sees it. Obviously if this path were followed it could only lead to economic and political collapse. Although the multiplier concept is still taught federal governments and their central banks have followed a somewhat different tack that is to create (print) money instead. While this paper was being written the FED through its Open Market Committee has [stated](#) that it will continue its current (March 2013) Quantitative Easing (QE) program of creating \$85 billion per month to keep prices up. This does not mean they do not tax as much as they can it only means that they have multiple means at their disposal and they will push the one that suits them best at the time.

## **6. Discussion on spending the heart of our problem**

The American academic élites and their supporters the "progressives" in politics tell us how we need to listen to them as they know best because they are so smart having graduated from all the best schools. Read David Haiberstam's 1972 book *The Best and the Brightest* on how and how and why we got into the Vietnam War and you may question that belief. The reasons are not the subject here the point being who wrong they were. Apparently none of those government economists that put [The American Recovery and Reinvestment Act of 2009](#) (The Stimulus) together had ever bothered to read the real reasons for the [Great Depression](#) and why Keynes theories were not completely valid. This was obvious in Grabell's book as [Christina Romer](#), the government economist who along with [Jared Bernstein](#), was trying to duplicate what FDR did **(14)** --- and they did. They spent a lot of money and got very little for it just like FDR only this time we knew better and did it anyway. Fifty three months after October 2008 we are still short over three million jobs from the peak in 4<sup>th</sup> quarter 2007.

Yet they continue to tell us how smart they are and therefore, if this was actually true they should have known that the Stimulus program would not work for the stated purpose, but they went ahead with doing it anyway, for they love to spend. It seems that it was more important to them to get all their transformative programs passed so they could make us more like a centrally planned economy such as those in the EU. We know the EU is doing very well today unlike us and so following their lead does make perfect sense. Capitalism and the free market are not obsolete. What is obsolete are the policies of the politicians and their supporters making laws to favor various groups that distort the free market and leads to all the various bubbles that have created so much havoc in our country and in the world.

Not learning from the housing bubble the politicians are at it again this time with a World Wide Sovereign debt bubble that has been created to support their Social Welfare programs and it is now about to burst and this will be much worse than the housing bubble collapse of 2008.

How is all the spending funded? Well much of it is not by means that we are generally aware of. Over the past 30 years maybe even a bit longer there has been a steady and growing shift of manufacturing based jobs out of the country and into the Pacific Rim countries for example; Japan, Korea, Indonesia, India, Vietnam and China. We were told not to worry about this as those old obsolete dirty factory jobs were being replaced by new service jobs in accounting, finance, health care, legal services and tech related development. We were told that this was no different than when the United States shifted labor out of agriculture into manufacturing. Therefore don't worry about it, things will work out and be even better. We were told that this was called [globalization](#) and the free trade between nations was the way to prosperity for all. According to Adam Smith in his book *The Wealth of Nations* this was, in fact, true and was explained by the economic principle of [comparative advantage](#) which we must understand first before we can understand the opposite of comparative disadvantage which is what we have now in the United States and that is what is driving the jobs out.

In economics comparative advantage is a result of one group, or person, doing one thing very well and another group, or person, doing something else very well. They then strike a bargain between them to trade some of each of their product or production to the other at some ratio that they both agree to. The result of this is that both groups, and/or both people, have more individually than if they had tried to make or produce everything themselves, as in jack of all trades master of none. This is a key concept and for it to work properly there must be a "free" movement of goods and services between the two groups, or people, and little or no "interference" between the bargaining that sets the exchange ratio. Meaning no outside influences like government and regulation which will always distort the process either some or a lot. No matter what the reason(s) any interference distorts the process and almost always causes problems to include major shortages and surpluses.

Today we find that the manufacturing jobs are gone but we also find that the promised service jobs are gone as well, in fact some of the service jobs left faster than the manufacturing jobs. Try calling for any tech support or customer service and you will, in many cases, end up talking to someone in India. Although it must be said that there has been some blowback on this as it was very hard to get someone to understand you. So what happened --- what went wrong? Was it evil greedy business men looking to make a few cents more on a product because labor was cheaper someplace else? Was it labor unions driving up the cost of labor? Was in Health Care being too expensive? Was it Wall Street financiers finding ways to manipulate markets? Was it the evil Oil companies ripping us off?

Actually the answer is none of those! The question can be best answered by using a line from an old comic strip [Pogo](#) created by Walt Kelly from comments he first made in 1953 where he said, "We have met the Enemy and he is us!" That quote is actually a parody of a message sent in 1813 from U.S. Navy Commodore Oliver Hazard Perry to General William Henry Harrison after the Battle of Lake Erie, stating, "We have met the enemy, and they are ours." Kelly was a master of satire and parody and produced Pogo in syndicated form from 1949 to 1973 when he died from complications from diabetes.

So the answer to the question of what went wrong is that we the citizens are the problem and the reason is that we the "Citizens" let the politicians convince us that what was going on with [globalization](#) was OK and that we should not worry. We believed them even though it didn't sound quite right to us. But they had been telling us that they were the "best and the brightest" so we believed them. Maybe we should have listened harder to what [Ross Perot](#) was saying in 1992.

But there were some good times originally until the [dot com bust](#) and then the Islamic terrorist attacks of [9/11](#) and then the [Enron](#) scandal after that the cancer took hold with a vengeance and the jobs were soon almost all gone. But there were signs early on like Billy Joel saw in his song Allen Town from a 1982 Album 'The Nylon Curtain'. Then there was the 1987 movie Wall Street Directed by Oliver Stone starting Michael Douglas, Charlie Sheen and Daryl Hannah, with its warnings about breaking up companies for profits. And we can throw in Disclosure a 1994 movie also starting Michael Douglas which is about the games being played in Silicon Valley with all the electronic production (a side issue in the movie) in Indonesia.

While the country was being dismembered one company and one job at a time we the Citizens were worried about all the really important things in life like; gay rights, abortion rights, civil rights, the environment, women's rights, animal rights, handicapped peoples rights, emigration rights, affordable housing, breaking the glass ceiling, not offending anyone ([Political Correctness](#)), no one being better than anyone else ([multiculturalism](#)), taking God out of everything (separation of church and State), and not teaching anything of substance in our schools so that no one would feel bad because they couldn't learn (building self-esteem). So today we have all those social rights in spades but no jobs. Which was really more important?

Having lived through the 1980's and 90's as a businessman in production related industries in a senior management position the effects of the political policies of the 1980's were very apparent. No one seemed to care about what was happening to business their focus was solely on all those issues listed in the previous paragraph which by the way is not a complete listing it's just a sample. Why would these social issues matter to businesses and job creation? And what does any of this have to do with comparative disadvantage?

First we need to discuss business and its purpose which is to make a profit so that the investors can be paid back for making their investment in time and/or money. If any business can not make or show they can make a profit that they can "keep" then the investors will either not invest or they will sell their position (at a loss) and the business will close. Therefore, no business can stay in business without making a profit. So by simple extrapolation profits are good not bad.

They are the reward for doing a good job  
The lack of them is the penalty for doing a bad job

So how does a business make a profit? Well there is really only one way and that is that it has to put "[value](#)" into a product such that customers will pay more than what it costs to make the product and in addition cover all the costs of being in business. A key point here that most people do not understand --- the only thing that matters to an investor is the net cash left after the deduction of all expenses; which includes production costs, operating costs and all business taxes. So it's easy to see that to have anything left over to pay the investors, the price of the product or service has to be greater than all the costs of providing that product or service, including taxes.

Anything that raises any part of the cost of doing business "must" be passed on to the consumer in the form of "higher" prices. This is nothing new even Adam Smith wrote about this in his book.

Therefore if society determines that businesses must include social costs as for example in complying with OSHA, EPA, NLRB rules and providing HEALTH CARE (a complete listing of rules and regulations would fill this entire paper) as well as property taxes and income taxes, the costs of doing business are by definition driven up. And therefore as the costs are driven up the businesses must either raise their prices or cut costs or go out of business. Their revenue must always be greater than their costs, to stay in business.

One other way is by government subsidies (additional revenue) but then the government needs higher taxes to do that. And the government also gets the right to participate in that business. If you have never run a business especially a large one you will have no appreciation for what it takes to run a multinational corporation and keep it profitable. Over time, most CEO's do really earn their high salaries.

Now we get to comparative disadvantage for we in America do not have a closed society. We allow others in other countries to sell goods and provide services in this country with few restrictions. Discounting transportation cost which are minimized by huge cargo container ships we have goods coming into this country from countries that do not have anywhere near the same social cost structure that companies here have. American companies, with operations here, are therefore at a significant comparative disadvantage. And to be honest the actual direct labor component, even with unions, maybe the smallest element in their high cost structure.

For example the hard push today to "Green Energy" which costs more to produce as any technical person will know and agree to. According to the [International Energy Agency](#) (IEA) in 2005 the average cost of electricity in the United States was \$.052 per kWh and in China it was \$.032 per kWh. This is before the big push to switch to renewable sources got started which will drive up the cost of electricity here even higher. For example, according to the [U.S. Energy Information Administration](#) (EIA) in their report of H.R. 2454 the [American Clean energy and Security Act 2009](#) electric rates in dollars per kWh could easily double during the time frame of the report if that law or any like it were ever enacted.

If the business in China were paying on average only 55.2% of those of their U.S. competitors now that is a major Comparative Advantage that they have over us that would get even bigger under H.R. 2454, or its ilk if passed. Further it would seem that that advantage will get bigger even without legislation as the EPA pushes to implement its clean energy agenda even without the passage of any carbon reduction legislation being passed through various rules and regulation.

If we add to that all the other social costs of doing business here (we are not considering the social merit of these policies here only their costs to business) from say worker safety and pollution control for example we quickly find that it would be almost impossible for any U.S. company to produce anything in our country that could not be produced and delivered here cheaper from a foreign source. It does not require a degree in economics or finance to see that these current policies are just not going to work. Common Sense alone tells us that the system our current leaders have given us will not work, because we told them we wanted these social benefits, welfare programs and regulations, and this will continue to drive production related business out of this county.

Walt Kelly, "We have met the Enemy and he is us!"

However our politicians, although they gave us what we asked them for, they didn't explain to us the consequences of those rules and regulations as they became apparent. As we saw in the songs and movies of the 1980's even the entertainment industry saw what was happening. So why didn't the politicians do something --- well it was really very simple. As the trade imbalance increased and cheap goods poured in, through Wall-Mart initially, the countries that were flooding the U.S. with cheap products elected to buy U.S. treasures bonds (T-Bills will be used here to identify all the variations of debt the treasury issues) rather than products and services that were just way too expensive to buy from the U.S.

So what most of us would say? Well as it turns out this is the most critical element of the predicament that we are now in. Our elected officials being from the best schools and being very educated (that's what they tell us and is the reason we are supposed to listen to them) knew what was happening but since the countries that were giving us the cheap goods were buying T-Bills the politicians had more money to play with and so to them having those extra funds meant they could pay for things that they otherwise could not provide (to us). This made them look good and got them re-elected. And they could always blame the job losses on the evil businesses that just didn't care so to them it didn't matter.

There has been a lot of talk by economists on this subject that claim this is of no concern as eventually those countries will have to move out of T-Bills so it doesn't matter. Although technically that may be true in "economics," in the "real world" its nothing but farm pollution. For example we are told that foreign purchases of T-Bills hold down the rate of interest, which is good. True yes, but rather than use that low interest rate to build infrastructure and promote business investment we used it to finance our social programs. Today we have interest rates that are near zero but still no investment is occurring in America. The problem with thinking that low interest rates will spur investment is that that the social transformations the government imposed increased the cost of doing business so much that there is no way to overcome the differential --- All the government has done for the past 5 years is make the situation worse.

This ended up being an absolutely perfect positive feed back situation ([the prefect storm](#)) working like this: as the foreign purchases increased and the sellers purchased T-bills, instead of goods, the government had more funds to make social changes which then, through more rules and regulations, which raised the cost of doing business which made them raise prices or which drove more business to shift production out of the country, which then resulted in more imports coming in from oversees, which then result in more money for the government to play with when the foreign sources bought more T-bills. There was just no incentive to stop this from happening in the government; it would have stopped the money flow to them.

In addition as the businesses closed or moved operations out of the country there were both fewer businesses to pay taxes and fewer employees to pay them as a result. So with fewer and fewer workers the tax burden per worker was forced higher and higher. Fewer workers meant the government needed to provide more services and therefore the government needed more funds and the resulting growing deficit was financed increasingly by foreigners. Looking back on it we can see now what happened but no one is willing to talk about it as there is to much blame to be absorbed.

For example according to the U.S. Treasury the United States borrowed from January 31, 2012 to February 28, 2013 \$1.24 Trillion dollars from sales of T-bills. Of that total \$573.3 billion was from foreign sources which represented 46.2% of the total amount borrowed by the Treasury during that period in Treasury bonds of various kinds. This is not sustainable and current deficit reduction programs proposed by conservatives and claimed (falsely) by progressives as draconian, to reduce that gap between revenue and expenditures within the next 10 to 20 years are just not going to work. Expecting the rest of the world to put an additional \$5 to \$6 trillion dollars into T-Bills over the next dozen years is just not realistic.

In simple terms the foreign purchases of T-Bills represents the hidden social cost of U.S. social policies compared to those in the rest of the world that is bringing us our products. This hidden tax was what allowed the federal government to expand its spending and its commitments for future spending which are called "[entitlements](#)".

What is entitlement spending --- well its just another thing the Founders did not anticipate; so what are entitlements? The biggest but not the only are the [Social Security](#), [Medicare](#), and [Medicaid](#) programs. Their expenditures are funded by permanent appropriations and so are considered mandatory spending, often called "entitlements," because people meeting the relevant eligibility requirements are legally entitled to these benefits. In these programs the Citizens pay taxes into these programs throughout their working lives. However there are some programs, such as Food Stamps, that are also appropriated and not taxed and are still considered entitlements.

This wouldn't matter so much except for two reasons. First the entitlement spending is expected to dramatically increase as a share of GDP. This is due mainly to social and economic changes caused by both structural and demographic reasons relative to those receiving benefits. For example, the number of workers per retiree was 5.1 in 1960; this has declined to 3.3 in 2007 and is projected to decline to 2.1 by 2040. These programs are also affected by per-person costs as the amounts paid out per person are increased by statute or new laws.

The second reason is more complicated to explain but an attempt will be made to do so in the next paragraph. For now suffice it to say that the money accumulated over the years to pay for these programs is not there. All these programs are in much worse shape then even the conservative politicians have been claiming and the progressives have denied this problem even exists. The result is the third Rail of Politics as they say, meaning you touch it and you are dead (politically).The bottom line is that outlays to these programs could break the Federal Governments ability to finance them much, much sooner then we are being lead to believe. Unless these long-term fiscal imbalances are addressed by "real" reforms to these programs, raising taxes or drastic cuts in the programs or both, the Federal government will at some point be unable to pay its obligations without significant risk to the value of the dollar (inflation) or outright collapse.

For the past 70 years, or so, at an ever increasing rate the [Congress](#) of the United States in concert with the rest of the Federal Government in all it's branches has been intentionally misappropriating your money. Worse they are doing it in full view with clever accounting tricks that makes [Bernie Madoff's](#) \$50 Billion dollar [Ponzi scheme](#) look like the work of a rank amateur. Only a completely corrupt national government could get away with something this evil for so long.

These are harsh words but they are absolutely true and therefore every congress that has participated in this travesty should be held accountable for what they have done. However this is mitigated to a degree because only an economist or accountant would be able to see it without being shown what was intentional and cleverly done to us. And even then the Treasury and the [Office of Budget and Management](#) (OBM) have done everything in their power to hide the truth of the Federal Governments scheme from the citizens with their very "unique" form of accounting. So we would have to say that it is every President, every Speaker of the House, every Senate Majority Leader, every Treasury Secretary and every head of the OBM that are the true guilty ones.

Most of us have heard of the [Social Security Trust Fund](#) and maybe even the [Highway Trust Fund](#) but they are only two of almost thirty similar funds that the government now runs. Today those combined funds show a balance of about \$4.9 Trillion dollars being held in Trust for the Citizens. The dollars that make up that \$4.9 Trillion are held in Federal Government Accounts or Intergovernmental Liabilities or Intergovernmental Holdings or Trust Funds depending on what report you are looking at. No matter what you call them what they are is misleading at best and criminal at worst.

What all of these Trust Fund accounts have in common is that those paying money into those accounts directly (FICA) or indirectly (federal gas taxes) have been told that those funds are being held for them by the Federal Government. Social Security, Medicare, The Highway Trust Fund, Federal Unemployment Fund, The Federal Employees Trust Fund and The Military Retirement Fund are but a few of these accounts. In general taxes are collected and supposedly transferred to these accounts for safe keeping and future use. Then from these accounts benefits are paid as required. In other words the public thinks those funds are in the bank so to speak. The reality is something quite different.

What really happens is that "all" the tax money earmarked for all the various Trust Funds are collected and spent but just not all for the programs intended. For example, let's look at the year 2005. In that year the Federal Government collected from us \$1.36 Trillion for these various "Trust" programs and that same year the Government spent \$1.19 Trillion dollars on those Trust Fund programs leaving a balance of \$236.7 Billion dollars at the end of their fiscal year. That amount was added to the various Trust Funds in proportion to the particular account it was collected for. For 2005 that meant there was \$3.31 Trillion dollars in those Trust Funds at the end of the year. That sounds good and we are led to believe that those funds are really there, but are they?

The reality is that these Funds aren't there, none of them not even one dime; all that exists are IOU's from the Federal government and issued by the Treasury to the various Trust Funds who are also part of the government in the form of an [Intergovernmental Interest bearing security](#). In other words this is money that the government owes itself.

These "special" securities are only good for getting cash, so to speak, from the Treasury which means they have no "market" value as do other Government issued securities. What that means and what we have been told is that if one of those Trust Funds needed to pay some retirees their pension but they didn't have the cash from current collections they would give some of those "special" securities to the treasury and the treasury would give them the cash. It sounds simple but where does the treasury get the cash, there are only two options it either takes it from the general fund or it borrows the money in the open market by issuing publically traded securities in the open market.

The Question is what happened to the surplus money that was in that account? That was real money paid by the taxpayers' and supposedly held for them. Contrary to common belief it wasn't saved every penny of it was spent and that 'special' security or IOU was issued to the Trust Fund as a cover up. Every penny of all that money ever paid in by the citizens has already been spent by crooked politicians on their pet projects and we are given an IOU for "our" money instead. Think of it this way. The FED's taxed you and you gave them some of your money through payroll taxes called FICA on your paycheck and W2. They told you that they would take something from you to do something for you in the future. They did some of what they promised but they used the rest of your money on something else that you didn't agree to. Remember this was to be dedicated money. To cover their butts they issued themselves an IOU for the amount they borrowed, misappropriated or stole from you depending on how you want to look at it. Then when the time comes to spend the "balance" on what it was collected for, they have to cash in the IOU and borrow the money from you to do that. They are taking your money for the second time now to cover what they already took the first time.

Does this really matter --- well most definitely it does matter and further it matters on three levels.

The first problem is the inherent dishonesty of the Federal Government, the very Government that comes down on Corporations for their miss deeds. If the Federal Government is lying to us about this \$4.9 Trillion what else are they doing and why with such an intentional misdeed would we ever believe anything they are saying now that we know better!

The second problem is that since every penny of those Trust Funds has already been spent that means that either past taxes were not high enough or past expenditures were too high (the more likely and indicative of a spending problem). In either case the real borrowing of the Federal Government was not really as shown, its there listed on the various forms but it's shown as intergovernmental not public debt. If any of those funds were needed to pay obligations then those intergovernmental government securities would need to be converted to public securities (additional public debt dollar for dollar).

The third issue is that an entire section of the Social Security Administration, for example, is set up to manage that non existing money in the phony Trust Fund. Federal employees hired and paid very well to manage a file cabinet of IOU's with absolutely no value meaningless high paying jobs,

Looking at current collections and payouts over the past two years it appears that the Trust Funds disbursements to the Citizens, in general, have now exceeded the revenue from tax collections. This is hidden by government accounting methods and transfers from the general fund but does appear to be true. This is occurring much sooner than expected mostly because of the lack of jobs over the past five years.

## **7. How did this all happen?**

In hindsight all that happened was something that was foreseeable but yet not foreseen, as the founders and writers of the U.S. Constitution actually did think they had covered all the bases, was that over time the states representatives to the congress (house and senate) would switch their allegiance from the states to the Federal government (that is where they got their pay from after all and where most now live as well in Washington D.C.). And the founders did foresee that concentrated power would develop in a National Capital but they authorized the new capital anyway thinking the Constitutional limits would protect them from what they feared. However it must also be said that what they did had never been done before and was the work of pure collective genius.

The original American government that existed under the [Articles of Confederation](#) for nine years and six months had proven to be too weak at the Federal level therefore the leaders of the states thought they needed something stronger but not too strong and surely they never meant for there to be an all powerful Federal government. So clearly the Constitution was a document that was meant to create but also to limit the power of the Federal Government they were creating. There were three key issues that needed to be resolved to fix the problems in the Articles.

A common defense required a strong(er) central government  
The central government needed a way to raise funds  
The central government needed a way to resolve squabbles between the various states.

The addition of the [Bill-of-Rights](#), the first ten amendments (actually 12 were proposed), was the compromise to get the new Constitution approved by the States and they were by design an additional set of limits imposed on the Federal government.

Since the American Revolution was all about freedom and too many taxes the intent of the [U. S. Constitution](#) and [Bill-of-Rights](#) was very clear, the founders wanted a Federal government strong enough to protect them from foreign invasion but not strong enough to take a way all the freedom that they had just fought so hard for.

Within the document that they created were the words that seemed innocent at the time but about 145 years later would give those in power what they needed, after they used some legal and not so legal trickery to make changes. These words are to be found in Article 1 Section 8 as listed below. The Nine Words that gave them the opportunity they sought are highlighted Bold. This is my view on how this transformation on interpretation happened and this is not elsewhere stated to the best of my knowledge.

In Article I - The Legislative Branch Section 8 - Powers of Congress in the first paragraph we find ... "The Congress shall have Power To lay and collect Taxes, Duties, Imposts and Excises, to pay the Debts and **provide for** the common Defence (original spelling) and **general welfare** of the United States; but all Duties, Imposts and Excises shall be uniform throughout the United States;" Then in the third paragraph we find ... "To **regulate Commerce** with foreign Nations, and among the several States, and with the Indian Tribes;" Then in the last paragraph of that section we find ... "To make all Laws which shall be **necessary and proper** for carrying into Execution the foregoing Powers, and all other Powers vested by this Constitution in the Government of the United States, or in any Department or Officer thereof."

For reference keep this paragraph in mind when you read the rest of this part of the discussion. During the Constitutional Convention, [James Madison](#) proposed that Congress be given the power "[to]" establish public institutions, rewards, and immunities for the promotion of agriculture, commerce, trades, and manufactures." The measure was voted down, but it clearly shows that Madison distinguished "commerce" from "manufactures." This is a key item for two reasons. The first being the separation between Commerce and manufacturing and second, the founders did not want the proposed new government involved in private internal state affairs.

Prior to the 1930's during the [Great Depression](#) the interpretation of the meaning of the word 'commerce' used in the Constitution as described here remained consistent. Roosevelt, a [progressive](#) democrat and a member of the want-a-be ruling class, was not about to be denied the things he desired (we should never let a crisis go to waste). No matter that the [Supreme Court](#) had previously defined what was written in Article 1 in a manner to limit the intrusion of Federal power into the states. The battle lines were now drawn in 1936 with the administration wanting to do 'things' in the New Deal (two) that in the past were denied by the Constitution and the [Supreme Court's](#) interpretation of the definitions of those nine words. Which brings us to the Roosevelt 'New Deal' (transformation) programs that were being used to create jobs, just not very successfully?

Roosevelt and his Congress of progressive Democrats were hard at work implementing all the [New Deal](#) policies in 1936 and the Supreme Court, in [Carter v. Carter Coal Company](#), struck down a key element of the New Deal's regulation, on the grounds that mining was not "commerce," and couldn't be regulated (remember Madison) in the first group of six of the nine key words. Roosevelt not to be thwarted began an assault on what he regarded as the Court's anti-democratic decisions after the 1936 election put him back in power for the second time.

Immediately after the election Roosevelt proposed a plan, even before being sworn in on his second term, to appoint an additional Justice for each sitting Justice over the age 70; that would have authorized an additional 6 justices for a total of 15 verses the then authorized 9.

The Constitution did not establish a number for the Justices it was left to congress to do so. Roosevelt claimed that this was not being proposed to change the rulings of the Court, but to lessen the work load on the older Justices who were slowing the Court down. There was significant opposition to this court packing scheme that Roosevelt concocted, and he probably never actually intending to do it, so he abandoned it. But then right afterwards and very miraculously there was a switch on the court that became known as "[the switch in time that saved nine](#)", Two justices Justice Owen Josephus Roberts and Chief Justice Charles Evans Hughes switched sides in 1937 and, in the [National Labor Relations Board v. Jones & Laughlin Steel Corporation](#), 301 U.S. 1 (1937), the court upheld the National Labor Relations Act, which gave the National Labor Relations Board power over labor relations all across the United States.

So in 1937 the Court found a way to get around the problem, not by redefining "commerce," this time but by supplementing it with the "Necessary and Proper" clause, the next three words of the nine making up the justification process. That combined set of five words, together with the "Provide for" and "General Welfare," now empowers [Congress](#) to pass whatever laws they think are needed to do whatever they want to do. The Court decided that the "necessary and proper" words when combined with the others authorize any regulation that bears "any relation to interstate commerce." So Roosevelt got what he wanted and the [Supreme Court](#) stayed at the then authorized Nine Justices.

However the Court clearly made this major switch in interpretation under duress and if you go back and look at the use of the word commerce in Section 8 it is put in with regulating transactions between sovereign entities (Nations States and Indian tribes) certainly not anything between individuals within their state jurisdictions. Clearly the intent was to prevent the imposition of tariffs and the like as was happening under the Articles and one of the main issues that led to the Constitution being created. Any other interpretation is strictly out of context and thereby wrong. One can only hope that when this travesty was done the Justices believed a later court would reverse this ruling and restore sanity. This 'new' concept, known as the "[substantial effects](#)" test, has effectively expanded the definition of [commerce](#) to include almost all activities of human beings. With that kind of definition there is virtually no limit to what Congress can legislate. For example we have as follows in 1942 and 2005.

In 1942, the Supreme Court held that homegrown wheat planted, harvested and consumed on the same family farm somehow amounted to interstate "commerce" ([Wickard v. Filburn](#)).

In 2005, cultivation of marijuana in a private home under California's medical marijuana law was held to constitute "commerce" by the High Court ([Gonzales v. Raich](#)) no pun intended.

In 2012 the Supreme Court ruled that the [Health Care and Education Reconciliation Act Of 2010](#) was Constitutional by declaring that the fine included in it wasn't a fine and it was a tax and since congress had the power to tax the law was Constitutional ([National Federation of Business v. Sebelius](#)) this was a big surprise since the people in the country never wanted this law and had worked hard to get it over turned.

And so today, Congress and the courts now have a 74 year tradition of giving a very broad reading to the [Commerce Clause](#). At one time or another, "commerce" has been legally defined to include such disparate activities as the payment of child support, racial discrimination, loan sharking, and transporting liquor for one's own consumption. Clearly none of these was in the mind of the founders.

In summary a very clear and compelling case can be made that the 'misinterpretation' of the commerce clause was something the Supreme Court did under duress and that the 'new' definition was clearly at odds from the 'old' definition.

The writers of the constitution knew what they were doing and they put in the following two amendments which were part of the [Bill-of-Rights](#) that were proposed by [James Madison](#) in the first Congress on September 25 1789 and ratified by the States a bit over two years later on December 15 1791. This addition of the [Bill-of-Rights](#) was to make it very clear what their thoughts were. Therefore all that followed from that, up to and including the Health Care reform bill that was signed into law on March 30 2010, are unconstitutional on face.

[Amendment 9 - Construction of Constitution](#). Ratified 12/15/1791.

The enumeration in the Constitution, of certain rights, shall not be construed to deny or disparage others retained by the people

[Amendment 10 - Powers of the States and People](#). Ratified 12/15/1791

The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people

Clearly when the [United States Constitution](#) is read along with all the supporting historical material such as The [Declaration of Independence](#), the [Articles of Confederation](#), the [Bill-of-Rights](#) the private papers of those involved and the [Federalist](#) and [anti-Federalist](#) writings that are available to us it is very hard if not actually impossible to come up with the current interpretation of the commerce clause, but then that's why we have really smart attorneys.

## 8. Conclusion

The generally accepted economic and political belief today is that a social welfare democracy can be created and run by a strong federal government that is active in managing the nation's commerce and that progressive taxation of the owners of production can be used to pay for the all costs without any consequences. Further that this form of economic system is sustainable and one in which everyone will live a decent and productive life --- Thomas More's [Utopia](#) is now here. The core logic for this is called [Keynesian Economics](#) and in one form or another this is practiced by virtually every country in Europe and the Americas to greater or lesser degrees.

Unfortunately the principles embodied in [Keynesian Economics](#) were not sound but since it sounded so good a 'free lunch' no one wanted to rock the boat and one country after another fell under the sway of the movement. While the rest of the world transformed itself to fit the Keynesian model after WW II America was able to resist until the 1980's when the social revolution began to transform us as well such that by the early 2000's it was well underway. There were warnings but they were all ignored as the promise of a [Utopia](#) was strong where there would universal homes, meaningful jobs for all, free health care and all the jobs would be low risk white collar as everyone would have a college degree. Guest workers would do the lawns and pick up the trash and clean the rooms while we played golf or tennis.

Well unfortunately along the way reality kicked in and we had a strong warning in October of 2008, which was ignored by the politicians, and they just promised us more as they still believed in Keynes. Almost 6 years later we still do not have the jobs that we had in November 2007 prior to the downturn, we're still short 3.3 million jobs but we did borrow and spend \$7.3 Trillion dollars trying to get them back; except we apparently spent that money on the wrongs things for the government sure didn't fix the shortage of jobs. The problem is simple they did what Keynes told them to do only he never understood that it was the government that caused the problem to start with and so by making the fix more government --- well it only makes things worse. President [Ronald Reagan had a way with words](#) and he wrote most of his own material. One of his famous sayings applies here which was, **"government is not the solution to our problem; government is the problem"** and this is more true today than it was back then.

Ironically it was WW II that saved us not Keynes and his well meaning but misguided theories. The federal government by creating the [FED](#) created the [Great Depression](#) by collapsing the banking system in the 30's according to Milton Friedman and the government by pushing [affordable housing](#) and getting the [FED](#) to finance it created the [sub-prime 2008 financial collapse](#) we have not come out of yet. As bad as both of those are the worst is yet to come as the sovereign debt bubble is still building even as it sucks the life out of Greece and now Cyprus. The [FED](#), the [IMF](#), the [World Bank](#) and the [ECB](#) are all finding creative ways to keep the bubble going in the [EU](#) but like all bubbles they are not sustainable and the prolonging of the eventual collapse only makes the fall that much harder.

In this short paper we have showed that the government spending often, if not always, is wasted and that the government is never able to fix the right problem; except when their lives are on the line and they are at war; then the Citizens have to save them to save themselves. The sooner we realize that [Adam Smith](#), [Friedrich Hayek](#), [Ludwig von Mises](#) and [Milton Friedman](#) were right and there is [no such thing as a free lunch](#) the quicker we can get to fixing the problem. I hope we can do this before we need to have another war as that seems to be the only way the politicians can correct their mistakes.

## References

(1). page 46, (4) page 6. Machiavelli, Niccolo, *The Prince*; New York; W. W. Norton & Co.; 1992, ISBN 978-0-393-9620-8.

(2) pages, 11 – 29. Skousen, W. Cleon, *The Five Thousand Year Leap, 28 Great Ideas That Changed the World*, Franklin: American Documents Publishing, 2009, ISBN 978-0-9815596-6-7

(3). Page 356. De Tocqueville, Alexis, *Democracy in America*, Volume 1 and 2, translated by Gerald E. Bevan introduction by Isaac Kramnick, London: Penguin Books, 2003, ISBN 978-0-14-044760-6.

(5). pages 412 – 419, (6) pages 391 - 399, (7) pages 156 – 168. Friedman, Milton & Jacobson Schwartz, Anna, *A Monetary History of the United States, 1857 – 1960*, Princeton: Princeton University Press, 1963, ISBN 0-691-00354-8 (pbk.)

(8). pages 115 –119. Friedman, Milton & Rose Friedman, *Free To Choose*, New York: Harcourt Brace & Company, 1990, ISBN 0-15-633460-7 (pbk.).

(9). Prologue pages 1 – 7. Morgenson, Gretchen and Joshua Rosner, *Reckless Endangerment*, New York; Times Books Henry Holt and Company; 2011 ISBN 978-0-8050-9120-5 (hardback).

(10). Page 338 (14). pages 28 – 35. Grabell, Michael, *Money Well Spent? The Truth behind The Trillion-Dollar Stimulus, The Biggest Economic Recovery Plan in History*; New York; PublicAffairs, 2012, ISBN 978-1-61039-009-5 (hbk).

(11). pages 170 – 175, (12) pages 157 – 159, (13) pages 159 – 162. Skousen, Mark, *The Big Three in Economics Adam Smith Karl Marx and John Maynard Keynes*, New York: M.E. Sharpe, Inc., 2007, ISBN-10: 0-7656-1694-7 (cloth : alk, paper).

### **Additional Recommended Reading Beyond those Referenced**

Alinsky, Saul D., *Rules For Radicals, A Pragmatic Primer for Realistic Radicals*, New York: Vintage House, 1989, ISBN 978-0-679-72113-0

Codevilla, Angelo M., *The Ruling Class How They Corrupted America and What We Can Do About It*, New York; Beaufort Books, 2010, ISBN 978-0-8253-0 (alk. paper)

Friedman, Milton, *Capitalism and Freedom (Fortieth Anniversary Edition)*, Chicago: The University of Chicago Press, 2002, ISBN 0-226-26421-1 (pbk.).

Haiberstam, David, *The Best and the Brightest Twentieth-Anniversary Edition*; New York; Ballantine Books, 1972, ISBN 440-90870-4

Hayek, F. A., *The Road To Serfdom, Text and Documents The Definitive Edition*, London, The University of Chicago Press, 2007, ISBN 13: 978-0-226-32055-7

Keynes, John Maynard, *The General Theory of Employment Interest, and Money*; New York: Harcourt; 1953, ISBN 0-15-634711-3

Smith, Adam, *An inquiry into the nature and causes of The Wealth of Nations*, New York: The Modern Library, 1994, ISBN 0-679-42473-3

Smith, Adam, *The Theory of Moral Sentiments*, New York: The Penguin Group, 2009, ISBN 978-0-14-310592-3

Strauss, William and Neil Howe, *The Fourth Turning An American Prophecy* New York: Broadway Books, 1997, ISBN 978-0-767900-46-1.