Stimulus: the False and the True

Mason Gaffney, February 2008

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"Stimulus" is the buzzword *du jour* of domestic policy, but its old metaphors ring with sad satiety: kick-start the motor, jump the battery, prime the pump, shot-in-the-arm, wake-up call, jolt, multiplier, ripple effect, ... Fact is, "we've been there and done that" several times for generations back. We have been doing it again for seven years now – that is what red ink and budget deficits are all about, and they're massively bigger now than ever before.

It started in the U.S.A. after the Great Crash. Leading economists had cheered on the boom of the 1920's, then fumbled and stumbled after the bust. They blamed the public, like leaders in all times and places who lack solutions. The old ones scolded haplessly as they slowly died off while the young ones, in the manner of Thomas Kuhn's paradigm shift, rushed to embrace the theories of J.M. Keynes and the practices of FDR, bowling over rear-guard protests. Keynes said "Borrow and spend. Borrow to soak up idle savings if you can, borrow newly printed money if you have to, tax if you must, but spend, spend spend!" Stimulus!

It didn't work. FDR had continued the price-maintenance and cartelization policies inherited from Herbert Hoover (via his first guru, Raymond Moley), choking off production and recovery. Note that these price controls were FLOORS, not CEILINGS like later controls. In 1937 came the "submerged depression", a depression within a depression. FDR, in trouble, reversed field and turned to reviving competition and anti-trust policy. Ed Flynn of the Bronx had replaced deceased adviser Louis Howe. Along with Flynn came Tommy Corcoran, Benjamin Cohen, and Thurman Arnold, to revive anti-trust and free markets. Recovery commenced, when World War II struck and eclipsed domestic policy.

"Stimulus" returned with the debt-financing of W.W. II, along with price controls and rationing to suppress and disguise inflation. After the war, fear of deflation and renewed depression trumped fear of inflation, while fear of Soviet communism cum imperialism justified continued debt finance. Riding the wave of postwar recovery came a young Keynesian super-surfer, Paul Samuelson. Brilliant, learned, literate, numerate, witty, worldly, and industrious, Samuelson swayed most new economists, including most of this writer's contemporaries, and millions of students.

He averred that debt-financing of the war had proven the worth of Keynesian policies. It was the dawn of a new era, to be understood and celebrated through the "New Economics". "Fiscal Policy and Full Employment Without Inflation" was Samuelson's bright promise in his 1955 best-selling text. He wrote of the "mastery of the modern analysis of income determination," and of the "momentous Employment Act of 1946 ... to fight mass unemployment and inflation." Inflation could result only from "overfull employment". He and his fellows dismissed anti-trust policy as mere "structural reform", much harder work and less fun than pulling the levers of fiscal and monetary policy.

In 1950 the smoldering cold war flamed hot in Korea. Truman raised the pace of deficit financing. U.S. Bonds sold paying only 2.5%. Truman and his Treasury Secretary

John Snyder pressured the reluctant Federal Reserve Banks, led by Thomas McCabe and then William McChesney Martin, as their patriotic duty to buy these bonds – refusing made one a "traitor", said Truman to Martin. They called it "supporting the market" for U.S. securities. Treasury paper became known as "non-defaultable" because the Fed would always buy it, an open-ended commitment. Private banks held most of it, and thus developed a vested interest in having the Fed continue to support the market. With all its faults it had the good side-effect of keeping the banks out of speculative real estate.

Where does the Fed get the money to make U.S. bonds "non-defaultable"? It has the power to create it, by printing new bank notes, and creating their financial equivalent, new demand deposits. These pump new money, the essence of "Stimulus", into the private economy. Most new Federal Reserve deposits actually lodged in private banks, serving as their required "reserves", freeing them to buy U.S. securities by themselves creating new deposits. Observers coined a useful term to describe what the banks did: they "monetized" the national debt. Remember that word: it crops up again.

Economists, puffed up with hubris, declared they had tamed the business cycle by managing demand. Managed Stimulus rose to the status of a permanent panacea. Meantime the military-industrial complex quietly grew into an even more potent vested interest supporting deficit finance, an ominous portent. President Eisenhower warned us, but waited until his farewell address, passing the buck to successors (the old Army Game?). At least in the 1950's they recognized that high federal spending calls for high taxes.

Next came JFK/LBJ and the "Soaring Sixties". JFK's modified approach was called "Business Keynesianism". Early Keynesianism was Consumer Keynesianism, with strong elements of "underconsumptionism", the idea that people save too much and should consume more. It was born in the Great Depression, at a time when "business" was in disgrace; the wage-earner serving as "the consumer" was to lead us out of the funk by getting higher wages and spending them quickly on consumer goods. Early Keynesians also scorned cutting taxes, the idea was for government to stir up stagnant savings by spending more.

By 1961, however, our leaders had figured out that the essence of Stimulus is not just spending, but the excess of spending over taxes, financed by borrowing: "deficit finance" without wild spending. They unbalanced budgets by taxing less. This was doubly stimulating: it not only pumped in new money, it also abated the DISincentive effects of high marginal tax rates on investing, now seen as the independent force that "animates all the work of society", as Turgot had perceived way back in 1767. Keynesians called it "income-creating investment". Businessmen, of course, loved it, hence "Business Keynesianism". The "Soaring Sixties" did indeed soar. Reagan was to rediscover part of the formula in 1981-89, but only in part, foreshadowing the present Noachian tsunami of debt.

You might think that government borrowing would drain capital from private industry, but people awoke to that later, when they labeled it "Crowding-Out". In the "Soaring Sixties" the U.S. Treasury could borrow indefinitely without even nicking its perfect credit rating. "Crowding-Out" was no problem because the Fed, by creating new money,

could buy U.S. bonds without depriving private business. The Council of Economic Advisers (CEA) under Walter Heller and then Gardner Ackley, bursting with confidence, declared they controlled demand so well they could "fine-tune" it, the ultimate step in demand management. Perpetual "Economic Growth" through perpetual Stimulus became the reigning fashion and mindset. Chirps of protest from fledgling environmentalists and conservationists they put down with condescension and apparent ease (deceptive ease, as it turned out). Heller tried to coopt environmentalists by promising them scraps from the table of "economic growth".

Samuelson passed the mitre to Heller, who put in practice a spectacularly good idea that was standard macro-economic code in those days, and later tragically discarded and forgotten. He distinguished clearly between NET new investing and GROSS investing – the former creates capital and makes jobs, while the latter includes buying existing assets like lands, merely shuffling them from one owner to another without directly animating any work of society or creating any income. The national accounts, taught to every student of macro-economics, drummed this important difference in. Keynes, with all his faults, had defined "investment" to mean only NET investing, so it wasn't even necessary to specify the "net" part.

Heller devised new creative means like the Investment Tax Credit (ITC) and accelerated depreciation to lower the effective income-tax rate on new investing and rev it up. These were the income-tax equivalents of exempting new capital from the property tax, and may be traced to the works of Heller's Georgist mentor, Professor John R. Commons of Wisconsin. They were a form, if only a mite, of True Stimulus, using Federal tools.

Most avowed Georgists, by that time, had boxed themselves in to the narrow and shrinking field of property taxation. Property taxation had become local and Balkanized, so many Georgists became anti-Federalists, some of them simply caustic and carping and off-putting. They could not or would not consider how income taxation can be modified in either pro- or anti-Georgist ways. Even the able economist Paul Douglas of Illinois, as big and noble a man as ever graced the U.S. Senate, volunteered to me that he regretted leaving Chicago politics because in Washington there were no Georgist tax issues on the table. In his 1967 *Report of the National Housing Commission* Douglas, working with our own Walter Rybeck, did get in a strong plug for LVT – but only at the local level. He did not see what Commons had seen, and Heller was seeing, that the Federal Tax Code brims with Georgist issues. Ironically, Congressman Henry George Jr. of Brooklyn had earlier played a key role in framing the income tax law of 1916 in such a way as to exempt almost all labor income from the tax. Alas, if only later legislators and Georgists had espaliered the tree as he had bent the twig!

A factor constraining False Stimulus then was the consignment of much land collateral to the S&L (Savings and Loan) industry. S&L's lend on land collateral, but they do not create new money the way the Fed, and commercial banks, do. S&L's lend just the money the public deposits in them. Public policy nurtured the S&L's and kept the "commercial" banks (the ones that can create new demand deposits) from competing effectively in this risky business. For example, "Regulation Q" capped the interest rates that S&L's could pay their depositors, mostly small savers, passing this benefit on to their borrowers. "Fannie May" and "Freddie Mac" backed more such lenders. Housing and

Urban Development (HUD) became a Cabinet Office in 1965, overseeing pouring billions into its many programs to finance housing without recourse to commercial banks that would have monetized land values as they had in the 1920's.

Thus Washington – the Fed and the Treasury in tandem – could feed out "stimulus" in manageable doses, based on Federal debt instruments, and keep it under better control than it had back in the "Roaring Twenties" when commercial banks went crazy in the land boom, and bust in the sequential fall. What the banks did then, and are doing again now, is monetizing speculative land values, a process proven ruinous many times in the long history of capitalism – "when will they ever learn?".

Economists debated lengthily, tediously, repetitively, whether the key to Stimulus was "Fiscal Policy" (deficit finance) or "Monetary Policy" (banking expansion). In retrospect that was internal academic bickering, and the personality cult that grew around Milton Friedman. In practice Fiscal Policy and Monetary Policy worked in double harness to manage demand, financing perpetual Stimulus for perpetual Growth. The good side of that is that land values did not again become most of the basis of our money supply – not then. Federal debt had been more attractive, for scores of years; but in the recent land boom, 1995-2007, banks have found mortgages and their various new packages more alluring, until they are again a large share of bank assets. Danger ahead! In fact it is at the gates, and breaking through the walls, but we are getting ahead of our story.

Returning to the 1960's, along came the war in Viet Nam, and several kinds of social and cultural revolution, shattering the dreams of Camelot while the war, like all wars, led to more false "Stimulus" – Federal debt, to pay for the war without annoying current taxpayers and voters by reminding them of its cost.

Some Keynesian economists adapted nimbly to the Pentagon State, touting warfare for work relief. They earned the name of "Keynesian Hawks". Here is model-building Lawrence Klein, President of the American Economic Association, 1976: "Defense spending ... has been a large part of the whole expansion of the American economy since World War II." The key question is "whether we should hold down defense spending for either economic or security reasons, and I think not, on both counts. ... Every cutback of a dollar in defense will cut two dollars from overall GNP and drag down a lot of jobs.... If we were to hold spending to $395 billion, the recovery of the economy would fade away" (*Business Week,* Jan. 19, 1976, pp. 51-52).

The Swedes, who also hand out a Peace Prize, dubbed him Nobel-worthy four years later. In fairness, Klein in 1990 may have done a 180, joining Economists Allied for Arms Reduction (now Economists for Peace and Security). His autobiography offers no clue to the why of this quiet tergiversation, but it hardly offsets the influence he exerted in his prime.

In 1971 Nixon abandoned the convertibility of dollars to gold and let the dollar "float" on the foreign exchanges. It immediately lost 10% of its value, aiding exports. It also gave the Fed, under putatively hard-money Chair Arthur Burns, latitude to loosen credit, to spur GNP and help get Nixon reelected in 1972. Nixon also imposed wage and some price CEILINGS. (He did not repeat FDR's and Moley's early mistake of imposing price FLOORS.) The combination of high demand with low prices was indeed stimulating – so

long as it could be made to stick. The problem, of course, is that price ceilings merely suppress and disguise inflation, which soon burst forth to embarrass Nixon's successors, Ford and Carter.

None of these price ceilings, either Nixon's or any others, ever applied to land prices. A few cities applied local rent controls to limited kinds of residences. Prominent academicians and think-tankers trained their big guns on these, although they were only flyspecks in the big picture, serving mainly as targets for ideologues. Real estate boomed, 1971-73, only to bust from its own internal dynamic in 1974.

Each of these periodic shots of "stimulus" of course added its mite to long-term inflation, which has proceeded inexorably up its curve of exponential growth until the nickel ice-cream cone of 1940 costs $2.50 today, the penny postage stamp is 41 pennies and rising, the $500 motor car is $25,000, the once-affordable country club membership is up to 5, 6, or even 7 figures at the top, and the $10,000 entry-level house is $400,000. People with middle class real incomes got pushed into upper class income-tax brackets, a process called "Bracket Creep". The result was a radical reaction against the progressive personal income tax, which earlier had been popular. This, in turn, translated itself into a reaction against all taxation, but not against public spending, setting the stage for Ronald Reagan and the levee-break of public debt that has followed.

At the state level, clever property lobbyists like Howard Jarvis turned it into a reaction against property taxes specifically, a conversion analyzed by Robert Kuttner in his insightful *Revolt of the Haves*. One result of that is Sacramento's current deficit of $12 billions, slashing of basic public services, especially welfare and medical aid, and rising tuition for students at State Colleges and Universities.

Vietnam, Watergate, and all that provoked a strong backlash against Nixon, Ford, and their party. More provoking and personal, for the median voter, was the curse of "Stagflation": double-digit inflation coupled with economic stagnation. "Stimulus" had lost its power, and therewith its charm. Real wage rates peaked in about 1975 and started their long glide to the present – a gentle slide, to be sure, but downhill all the way.

President Jimmy Carter's economic pilot, Keynesian Arthur Okun, offered the public no bread but a stone: "No one in the world has a recipe for correcting our price performance without some unfortunate increase in unemployment. ... [the public] should be told the facts of life" (Arthur Okun, 1970). The most visible leaders of economic thought joined him, from Milton Friedman on leftwards. Economics had become a New Dismal Science, a science of choice where all the choices are bad. They called it "The Phillips Curve" dilemma.

"One must face up to the bitter truth that only so long as the economy is depressed are we likely to be free of inflation" quoth Paul Samuelson, the same who when young had promised that the "New Economics" would deliver "Full Employment Without Inflation".

Conservatives and "Monetarists" preached on the same text. "... there is no other way to stop inflation. There has to be some unemployment. ... It is a fact of life" (Milton Friedman, 1970). "The election will show whether the American people are mature enough to accept a sustainable (low) level of activity" (Henry Wallich, 1970). "... this

economy can no longer stand a real boom with low levels of unemployment without kicking off a rampant inflationary spiral" (Alan Greenspan, 1972).

After Nixon/Ford came Carter, Arthur Okun, the Phillips Curve, and stagflation. There were gas lines, price controls, and shortages. Stimulus lost its magic as a panacea, and price ceilings lost their fan base. Late in his term Carter appointed Paul Volcker Chairman of the Fed, with a new mission. The old goal of stabilizing interest rates gave way to a new goal of stabilizing prices, raising interest rates as high as need be. Volcker responded full bore, and interest rates soared to the sky. This helped cost Carter his reelection, but the new President Reagan continued to support Volcker. He discarded demand-management and the old Keynesian crew to try a new idea, “Supply-side Economics”. It was to be “Morning in America”.

Reaganites lured Democrats by citing JFK, Walter Heller, and the Soaring Sixties as precedent. They could stimulate demand by cutting taxes as well as by boosting spending. At the same time, unvexed by consistency, they epitomized Reagan’s new outlook in the “Laffer Curve”. They called it “Supply-side Economics”, to spite the “Demand-side Economics” of Keynes. The new idea was we can lower tax rates and raise tax revenues for the Pentagon in the same stroke. Taxes impair incentives so much, on the Laffer Curve, that lowering tax rates by, say, 10% would raise taxable incomes, trade, and wealth by, say, 20%, thus providing more revenue with lower tax rates. The secret of the miracle is unleashing long-suppressed natural urges to work, trade, and invest. Under Reagan, Treasury officials were ordered to replace old methods of forecasting tax revenues with “dynamic revenue forecasting”, based on assuming such positive Laffer Effects, at least in part.

Art Laffer, Jr., was a professional upstart and *persona non grata* to the aging avatars of Keynesianism, now gone stale. Campaigning for Reagan, Laffer often quoted Henry George, who had written so eloquently on how taxes dull the edge of husbandry and clog the gears of commerce. It could have been a great defining moment in American history. Surely this young Lochinvar quoting George must see that TRUE Stimulus, supply-side Stimulus, means taxing land values to permit of untaxing production and trade! Except, alas, Laffer turned out to be another Pied Piper. He left out the centerpiece of George, that is replacing baneful taxes with others based on land value. In 1978 he even campaigned in California for Prop. 13, explaining lamely over my protests that the property tax is a tax on buildings, period.

Reagan wanted more military spending to cow those awful Reds in Moscow, and – even back then – those nasty Ayatollah’s in Tehran who had kicked out our guy, Shah Mohammed Reza Pahlevi, and fought off our cat’s-paw, Saddam Hussein. The result was more deficits – they just didn’t call that “Stimulus” any more, and rarely mentioned Keynes except to remember he said that investment is good, and depends on the “animal spirits” of investors. Even those ideas they voiced in tendentious business codewords like “confidence”, “property rights”, “capital formation”, “credit ratings”, and “sanctity of contract”.

No, now they promoted the “Ricardian Equivalence Theorem” of Professor Robert Barro of Rochester, who claimed to know that government deficits automatically make private saving rise by an equal amount, in anticipation of higher future taxes – a

breathtaking feat of self-deception, endorsed by Milton Friedman himself. Barro's reward was tenure at Harvard and a column in *Business Week*. The nation's reward was a higher national debt and a fall in private saving. No one ever seems to have noticed how wrong Barro and Friedman were.

In 1979 I, grasping at a straw, called Laffer to give a paper at the Annual Meetings of the AEA. I was chairing a session on the Centennial of P&P, courtesy of AEA President Moses Abramowitz of Stanford. Laffer's secretary explained she could not disturb him for less than his minimum fee of $5,000 and expenses. "But", I objected, "This is his professional association; no one gets paid, it's an honor and good exposure." That cut no ice. "He's been quoting Henry George", I persisted, "I want him to speak on Henry George". "Oh, that's different, why didn't you say so? Mr. Laffer simply LOVES Henry George; I'll put you right through". Laffer accepted on the spot; I was ecstatic.

Grayer heads warned me against him, but I assumed they were just professionally biased and jealous of this upstart whose credentials were a bit shadowy, but who was talking sense. Perhaps they were being jealous and small, but I was going for the big score. Alas, it turned out they were right. He charged me nothing, but that is all his talk was worth, when he finally straggled in. I was hoping for something classic and definitive; what we got was a shallow canned spiel for the chicken-à-la-king circuit of Babbitt Clubs, damning all taxes in the most simple-minded way.

Reagan in power, 1981-89, lowered the wrong tax rates. The idea of True Stimulus is to lower tax rates on producing and investing – that is, on NET new investing in the old Keynesian sense. First-term Reagan actually did some of that, accelerating depreciation again and reviving the ITC (investment tax credit). He offset the brake of Volcker's high interest rates by unleashing S&L's to lend on commercial real estate and take risky equity positions, even while a Federal agency continued to insure their depositors – a huge and soon catastrophic blank check to subsidize investing. This led to what James Follain and Patric Hendershott and James Ling called a "lending frenzy". These measures lurched clumsily, as frenzies will, stimulating an unbalanced and insupportable boom in limited kinds of capital like office buildings, and later a spectacular bailout of overextended S&L's.

The lasting legacy from all that was to lower tax rates on land rents, and on rents from old capital. How did Reagan's handlers manage that? Don't ask, it was death by a thousand cuts, but if you want to dig into it see the paper that Michael Hudson and Kris Feder published at the Levy Institute, or my forthcoming "Hidden Taxable Capacity of Land".

The ruling objective was to boost values of existing property; the sales line was that this would stimulate job-making investing. Reaganites revived and boosted Schumpeter's old idea that new products and new firms blew in with a benign "gale of creative destruction", obsolescing old forms of capital. Good, but in practice Reagan's Treasury shifted taxes off old property and onto creative activity. They lauded the profit motive, but in practice they spoiled military suppliers with cost-plus contracts, unfitting them ever again to compete in real markets. Industrial economist Seymour Melman of Columbia documented the decline under this regimen of the U.S. machine-tool industry,

and our ability to compete with foreigners, but who was listening then, as scientists and inventors were diverted into war work at Pentagon prices without competition?

In 1986 Reagan endorsed and signed The Tax Reform Act, crafted by Treasury economists led by Princeton Ph.D. Charles McLure, once of Rice University, now comfortably retired at the Hoover Institution and covered with honors. "Uniformity" was the new catchword, and what could sound better? The idea was to close the notorious loopholes via which crafty billionaires and corporations were avoiding taxes.

I held high hopes for McLure. He, like Follain and Hendershott (cited above) was a member of TRED (Committee on Taxation, Resources, and Economic Development), the small group that Weld Carter of the Schalkenbach Foundation and Professor Arthur Becker and I had founded in 1962 at the University of Wisconsin-Milwaukee. Our avowed purpose, expressly stated, was to create a modern literature in the tradition of Henry George. In 1983 McLure had edited a book for us, *Fiscal Federalism and the Taxation of Natural Resources*, showing his understanding and, so I thought, a measured sympathy. Alas, the measure was too small.

The 1986 Reform closed mostly the wrong loopholes. Its main targets were the ITC and accelerated depreciation, the Commons-Heller-JFK innovations designed to downtax new investing, Turgot's independent force that "animates all the work of society" and Keynes' "income-creating" force that makes jobs and raises national income by multiples of itself. Did they throw out the baby with the bath-water? No, just the baby; they saved the bath-water, soiled with special favors for land income.

The traditional liberal establishment of tax reformers were completely taken in. Robert McIntyre, veteran spokesman for union-supported CTJ (Citizens for Tax Justice), lauded the death of ITC and accelerated depreciation. As a union man he favored higher taxes on capital in all forms and manifestations (fund or flow), blind to differences between those that made jobs and others that just valorized old capital and land.

All this time payroll taxes were creeping upwards to their present high level. None of these reformers, not even the union-based CTJ, seems to have noticed or cared. As the rising payroll tax surpassed the falling corporate income tax, and the personal income tax devolved into primarily a payroll tax with huge loopholes for property income, economists who made it into print mostly deplored and exaggerated the alleged "double-taxation" of savings, and of corporate profits, and the alleged "triple-taxation" of capital gains followed by estate taxes. Laffer had been full of examples of how high taxes discourage people from working hard. Supply-side Stimulus was going to correct that, but when it came to downtaxing or untaxing work effort, Reagan's tax reformers did nothing.

The 1986 Act did appear to close one big loophole for land, the exemption of half of unearned increments ("capital gains") from taxable income. That closure, however, lasted just one year, and sparked a concerted drive to downtax or exempt such gains that has now driven the rate down to 15%.

Economists James Follain and Patric Hendershott, also members of TRED, at one point wrote that the 1986 Act, by lowering after-tax rates of return on new investing would tend to drive investors into pushing up prices of land and old buildings, thus in one

stroke lowering the proper economic incentive to build (productivity of capital) while inflating the wrong incentive (capital gains). If anyone was heeding, however, they were swamped in the follies to follow. McLure after 1986 joined the movement for a national VAT or sales tax, a cause totally at odds with the goals of TRED.

George H.W. Bush took the next turn at President. He sacrificed his entire Presidency for one overriding, obsessive domestic cause: to lower the tax rate on unearned increments to land values (aka "capital gains"). After all, he had come from the oil industry which makes so much of its income from the rise of petroleum deposits *in situ* (in the ground), a rise Congress has defined as a "capital gain". He lacked the power to lower the tax rate on gains by more than a point, but he fought and fought until he finally established the principle that capital gains are different from "ordinary income". It was the thin end of a wedge that his successors were to drive through to the hilt.

To win his goal he had to deal with Democrats who wanted higher taxes. In return for a little break on capital gains, he conceded them higher taxes on ordinary income, breaking a famous pledge ("Read my lips; no new taxes!"). That and a housing bust after 1991 lost him a second term. In 1987 Reagan had appointed Alan Greenspan to succeed Volcker at the Fed. Of course the housing bust was not Greenspan's fault – nothing ever is - and Bush paid the price in 1993.

Bill Clinton ran for President with a new take on stimulus: balancing the budget. Washington's deficits, he said, were "crowding-out" capital funds from private industry, and he would reverse the flow by paying down the national debt. This was a denial of old Keynesian ideas and must have tickled the ghost of Andrew Mellon, hard-nosed Republican budget balancer from 1921-32, but, in the circumstances of 1993 it worked. "Positive Stimulus" to the private sector more than offset "Negative Stimulus" from the public sector. It took higher tax rates to do it, which of course offset much of the stimulus, but 1993-2001 were good years, as recent years go. An ominous portent, though, was a foretaste of the coming land boom, and the movement of commercial banks, freed from old prudential shackles, into monetizing it.

Next at bat was George W. Bush (Bush II). When it comes to the False Stimulus of deficit finance, none can surpass him, and somehow he ran up these trillions of national debt in tandem with Ayn Rand's disciple Alan Greenspan gushing out the new dollars like Spindletop. Like Reagan before him, Bush favored taxing less while spending more. "Deficits don't matter", chimed in Vice-president Dick Cheney, supposedly the stabilizing elder statesman. Reinforcing Federal deficits was another "lending frenzy", but this time by commercial banks monetizing unearned increments as they boosted them, a positive feedback loop of the most dangerous kind.

As we near the sunset of what most people consider a failed Presidency, suddenly to cap Bush's woes the dollar is sinking, banks are failing, Russia is rearing up, allies are wavering, and the housing bubble is imploding sensationally. His new Fed Chair, Ben Bernanke, faces in real time what he analyzed so insightfully in history, a major depression following a wild land boom. So what creative new idea does this team of leaders offer? Why, more False STIMULUS, what else? It failed before, be sure it will fail again as Bush follows the sunset back to Crawford, leaving the night of despair to us and his successor and – possibly – a crippled and chastened Ben Bernanke.

The luck of compensating error may save the banks from a collapse like that of 1929-33. As land collateral fails them, and they retrench their housing and other real estate loans, they will have more U.S. bonds to replace them. Their major income, again, will come from U.S. taxpayers. This, however, will soon push us up against an unavoidable moment of truth, as debt service looms into an ever greater fraction of the budget. Delusional economics cannot sustain us much longer. How much debt can the U.S. sustain with low tax rates, low household savings rates, anti-tax ideologues dominating the public dialogue, a worldwide flight from the dollar, and a shrinking tax base? The worst possible outcomes are chilling.

So who's on deck, and with what kind of Stimulus? Will the successor bat in the dark, or under lights? Will the voters continue to obsess over crotch politics and world power, or demand True Stimulus? We cannot tell. In a long life one meets many reverses and disappointments, many flawed leaders and weak friends. Still we can guide our individual lives in the spirit of Cullen Bryant's old reverie on a lone-winging waterfowl (slightly adapted to our theme):

"There is a power whose care teaches thy way along that pathless coast,

The desert and illimitable air, lone, wandering, but not lost.

He who from zone to zone guides through the boundless sky thy certain flight,

In the long way that we must TRED alone will guide our steps aright."