Democratic Money: A Populist Perspective

with Lawrence Goodwyn and William Greider

Remarks presented on the occasion of the 100th anniversary
of the Populist Sub-Treasury Plan for financial reform

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Introduction by Tom Schlesinger
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It was a resigned, plaintive-sounding analogy but it spoke volumes about the roaring ’80s. "I don’t think it is healthy to have this dramatic concentration of financial power," investment banker Felix Rohatyn told the *New York Times* in 1988. "But it’s just like the nuclear age, you can never uninvent the atomic bomb any more than you can uninvent these astronomical capital markets."

Maybe so. But Mr. Rohatyn’s financial world, for all its explosive effects on American society in the past decade, has proven to be eerily fragile as well as inordinately powerful. In fact, that world is no more permanent than those created by the crop lien system in the 1880s or stock watering in the 1920s.

To reckon with a system that appears to have spun so majestically out of control, it helps to consider America’s historical record of financial disorders -- and of ordinary citizens organizing themselves to "uninvent" the problem. There’s no more telling example than the Gilded Age and the biracial agrarian firestorm it provoked called Populism.

The Populist movement built itself on a model of economic cooperation intended to combat the two sources of financial pressure that plagued farm communities 100 years ago -- vise-like credit conditions and a pinched, inflexible currency. By the end of the 1880s, hundreds of thousands of Americans had been drawn to Populism’s organizational seedbed, the Farmers Alliance, through its cooperatives and vibrant system of grassroots education.

In December 1889, Alliance representatives met in St. Louis along with leaders of the Knights of Labor in an attempt to coalesce the great urban and rural organizations of America’s "producing classes." That gathering knit the ties that would underpin Populism’s insurgent moment on the stage of national politics in 1890 and 1892. But what made the St. Louis convention memorable was the report of its Monetary Committee, an audacious program for financial reform authored by Texas Alliance leader Charles W. Macune.

Macune’s Sub-Treasury plan, based on years of cooperative experience, was both visionary and intensely practical . It proposed that the federal government establish a warehouse to store crops after harvest in every county that raised at least $500,000 of farm produce each year. These "sub-treasuries" would become the instrument of money creation -- a way for farmers to borrow against their crops and land at low interest or to sell those crops at market value and be paid in a new national currency. Money supply would rise or fall flexibly, in tandem with the nation's productive capacities. The cost of credit would shrink as farmers borrowed through their own national government rather than a restrictive private banking system. And agricultural prices would rise from their crushingly depressed levels.

Macune's plan to harness the monetary authority of the nation on behalf of its citizens formed the centerpiece of Populism's battle for economic opportunity. Conventional minds derided it mercilessly -- "the wildest idea conceived by sober man" sniffed the *New York Times* . But broader thinkers like Richard Ely, founder of the American Economics Association, and John Maynard Keynes applauded its viability. Indeed Macune's ideas anticipated Keynes' commonsense premise that monetary policy must support production of real goods. Though they were watered down, even twisted, in execution, Macune's notions also informed the establishment of the Federal Reserve System in 1913 and the New Deal's farm programs two decades later.

Today's collective memory of the nineteenth century populists and their financial reform efforts is fuzzy at best. "Populism" itself has become a debased currency, pasted at random by all manner of labelers on all manner of political figures and phenomena. Alexander Cockburn in the *Nation* and Alexander Haig in the 1988 New Hampshire primary agree that "populism" means pandering to popular prejudices. Pundits across the ideological map decree that Lee Atwater, chairman of a party committed to enhancing the fortune of creditors, is a "populist" -- perhaps because his proper upper-middle class upbringing occured in South Carolina instead of Georgetown or Sutton Place.

After being subjected to so much reflex sneering and romanticism, so much journalistic laziness and political confusion, the "P" word, for all practical purposes, may be unsalvageably disconnected from its roots. But if populism can still be about anything real today it must surely be about democratic money.

In 1990, America is not a nation of small agricultural producers. But we are more than ever a nation of debtors -- families, businesses and governments in hock at record-high real interest rates that have transferred staggering amounts of wealth from borrowers to creditors and magnified the hazards of recession and even higher interest rates.

We don't have a crop lien system or an inelastic currency, either. However, after a decade of unbridled financial dominance of the real economy, America is a land rich in "highly confident" letters and land-flipping expertise but poor in manufacturing innovation and in affordable housing. Financial firms claim a growing portion of our public resources -- like the S&L bailout -- and provide pitifully little of public benefit in return.

Despite the depth of our financial wounds, a smug orthdoxy rules the intellectual, journalistic and political roost just as complacently as it did 100 years ago. However, beyond this ruling myopia, many Americans are ready to challenge our nation's financial status quo and repair the damage it has inflicted. A century after Charles Macune unveiled his sub-treasury plan, two dozen leaders of farm, labor and civic groups convened in St. Louis to discuss a contemporary program for financial reform. Nearly all the participants came to the meeting through their involvement in the Financial Democracy Campaign, a grassroots effort that came together seeking a fair and sensible solution to the savings and loan collapse.

As Congress deliberated the S&L bailout, hundreds of organizations representing millions of citizens joined the Campaign. So did thousands of individuals who tuned in to radio and tv talk shows, signed petitions in churches, shopping malls and conferences. What attracted them was the Campaign's insistence that the beneficiaries of financial deregulation ought to pay for its ruinous consequences. It also insisted that any solution to the S&L mess had to be a solution to the nation's housing problem -- the very need S&Ls were created to address.

Eventually grassroots pressure helped convince Congress to add provisions to the bailout that reduce mortgage borrowing costs for many average citizens and give many more a first option to acquire or rent foreclosed homes in the burgeoning federal inventory. The legislation also made it more difficult for lenders to arbitrarily redline borrowers.

Despite this silver lining, most Americans took a licking in the bailout. Taxpayers were handed the bulk of a $300 billion-plus damage bill inflated by deceptive and unnecessary financing schemes. Meanwhile, wealthy individuals and financial firms received a treasure chest of benefits. The lasting lesson of the Financial Democracy Campaign was that citizens have a long way to go in assembling the themes, strategies, policies, projects, intellectual wherewithal and sustained political energy to broadly change the customs, laws and practices -- both domestic and international -- that define the marketplace for credit, capital, currency and other financial products.

Real financial reform isn't likely be realized quickly; it probably won't be accomplished at all without an appreciation of its rich antecedents in American history. So to commemorate the 100th anniversary of the Populists' St. Louis convention, we presented a panel discussion of "Democratic Money: Past and Future" at the end of last December's strategy session.

The featured speakers were historian Lawrence Goodwyn and journalist William Greider, two writers who through their tenacity, investigative skill and independence, share the rare distinction of persuading American culture to think twice about some embedded habits of thought.

Lawrence Goodwyn is professor of history at Duke University where he co-directs the Oral History Program. A native of Texas, Goodwyn was an editor of the *Texas Observer* and a member of U.S. Senator Ralph Yarborough's staff.

In 1976, Goodwyn published his landmark history of the Populist movement, *Democratic Promise.* The book shattered a one-dimensional historical consensus that had written off Populism as a reactionary hayseed campaign for free silver. By showing the Farmers Alliance as a complex and sophisticated insurgency, Goodwyn's book set a new standard for understanding social movements in America.

William Greider is national affairs correspondent for *Rolling Stone* and a correspondent for PBS' *Frontline* documentary series. For many years a reporter and assistant managing editor at the *Washington Post* Greider has written several books including *The Education David Stockman.*

With the 1987 publication of *Secrets of the Temple*, Greider singlehandedly revived, enlivened and deepened a dormant public discussion about one of America's most powerful public institutions, the Federal Reserve System. Cutting through the familiar bromides and expert fogs that obscure monetary policy, Greider’s book painstakingly casts light on the Fed’s political roles and the consequences of its economic decisions on citizens’ daily lives.

To pay their respects to Mr. Macune, both presenters took time from longstanding writing projects. Lawrence Goodwyn is completing a book on Poland and the rise of Solidarity that will be published by Oxford University Press late in 1990. William Greider is beginning an ambitious book on how America is really governed.

In addition to them, we also thank Local #36 of the Sheet Metal Workers International Association for providing the "Democratic Money" panel its excellent facilities. LeRoy Kraemer, business representative for Local #36, was especially helpful in St. Louis as were Art Martin, Ben Senturia of the Center for Active Citizenship, John Hickey of ACORN and Pat Harvey of the Missouri Citizen/Labor Coalition. Ken Meter, Kay Alexander and Bob Hall rendered invaluable assistance in producing this booklet.

Lawrence Goodwyn

Let me say that in my profession, you get acquainted with error. Historians study error. You might even say we study the continuity of error. It is a very sobering occupation. We discover that it is more consoling to develop a long angle of vision. If you focus just on one generation you may not find enough there to warm the spirit. Better to have four or five hundred years in your gaze and be judiciously selective within that period.

All kidding aside, there are certain rhythms that become clear over the long view. First of all, in all human societies, almost all the people, have deep, substantial grievances. That’s rhythm number one.

Rhythm number two is that despite this universal sense of loss and injustice and injury, the number of large-scale social movements that exist in human history is very small. In our country the CIO mobilization of the ’30s and the Agrarian movement of the 1890s -- Populism -- were the only movements after the Revolution that achieved genuine scale, if one measures movements by their level of internal organization.

It’s possible to say, "my goodness, the history of agriculture in America has been one of a systematic exploitation of people on the land by people who lend them money and by people who sell their products." Can it be that only in the 1890s farmers got together to try to do something? How about the 1870s or the 1840s, or what about 1924 or 1935? Looking back over the history of workers in America, one encounters an absolute agony in the industrial heartland from the end of the Civil War through the Great Depression. Is it only in the 1930s that "workers got mad" and decided to do something about it?

How do we explain the fundamental disjunction in human history between the widespread existence of grievance and the very rare collective assertion that we find? The answer to this is appallingly simple: Large-scale movements happen when they’re organized. They happen no other way. And the reason that they’re not organized more often -- we have people in the audience whose lives will verify this -- is that large-scale movements are agonizingly difficult to put together. The entire culture of a society is arrayed against the idea of large-scale collective assertion.

The first duty of a revolutionary when he comes to power is to put down his gun -- that is to say, his immediate objective is to proceed with the business of creating a society where he can put his gun down. The first step is to take control of the past and use it to justify the revolution. American history in that sense begins with the Declaration of Independence. There are 32 paragraphs in that document and 29 of them denounce King George III as a tyrant. It is a classic historical justification of a revolution.

We can look back on this and say, "You know, among European monarchs in the eighteenth century, old George was pretty benign. How about the Hohenzollerns? How about the Bourbons?" Well revolutionaries are not in the business of judicious distinctions. In 1776, in the name of the social objectives of the Revolution George III is a tyrant, 29 times a tyrant.

The second duty of a revolutionary is to create a culture in which ideas beyond those of the revolution are impossible to have, a culture in which it becomes difficult for people to imagine structural change. If this condition is not achieved, those who rule need lots of guns and secret police to keep everybody in line. Social space evaporates and society becomes rigid. Of course those in power don't look at it this way; they prefer to name the result "stability."

Rigidity can also be the governing reality in societies without ubiquitous secret police forces, in societies that pride themselves on their flexibility and openness. Future historians will look back and see much more of this rigidity in the societies of the twentieth century than we ourselves can summon the poise to see. They will see enormous systems of centralized bureaucracy atop an economic structure of large-scale production, and they will say, "What a narrow century the twentieth century was. It was the least creative political century of the last three."

Future historians will be able to say that for most of the twentieth century, until around 1990, there were only two ways to think. One was either a communist, whatever that meant, or one was a capitalist, whatever that meant. The highly stratified industrial societies of the twentieth century were characterized by anxiety, deep brooding anxieties that intruded into and suffused the lives of hundreds of millions of people. They wore social masks to conceal their private anxiety. Publicly, people announced that they lived in the best society in the world, that they were "practicing democracy" or "building socialism." But privately they said, "You can't fight city hall . . . the rich get richer and the poor get poorer . . . all politicians sell out," or (with their teeth considerably more grimly set when they said it) "You can't fight the Party . . . the Party gets all the goods . . . the Party's corrupt."

I do not suggest for a minute that the social distinctions between life in a Leninist party state and life in a corporate-dominated state are inconsequential. As a result of long centuries of political struggle culminating in the Revolution of 1776, one has a Bill of Rights that has authentic cultural meaning in the daily lives of the citizenry and the other does not. But it is also necessary to say -- as future historians will be at pains to point out -- that these differences, while vastly important, do not mean that one society has achieved democratic social relations while the other had not. Congratulating ourselves for past achievements is not helpful if such folkways have the practical effect of blinding us to the political implications of the alienation that pervades our daily lives.

Observe what happens if we put aside public pretense and apply serious democratic standards to twentieth century life. Democratic social relations: can we conceptualize a democratic marriage? A democratic workplace? Can we conceptualize a democratic system of money, credit and exchange at the heart of all our material relations, operating not for the benefit of bankers but for the benefit of society?

Judging by the politics of the twentieth century up to now, future historians will have to conclude that these concepts were not politically admissible within the received culture of American democracy. People did not act politically as if they thought they were admissible.

So it's a very narrow century, politically speaking. 112 years ago, a small group of people, not very different from the people in this room, met together. At their first meeting, they had seven people. Despite the fact that they had a number of deep economic anxieties, they had a sense of self and they talked to each other about trying to do something about their lives and their plight. They created what they called the Farmers' Alliance. And in due course they titled it (they were Texans and that introduces certain regional malfunctions) "The Grand State Farmers' Alliance." I think they got the word "grand" in the title because they were so weak.

The opportunity they possessed 112 years ago was that they could talk about the society and the system of finance. There was an existing literature called the Greenback doctrine. But they had a recruiting problem. This is a big kitchen that we're in today, and we're sitting around the kitchen table analyzing American society. We're grumbling about the Republican Party and the Democratic Party and the local institutions that are not functioning.

We could say such things to ourselves as, "Well, there are three institutions in America that house American workers. The Roman Catholic Church, the black church, and the American trade union movement. Those three institutions, plus us, are victimized by structures of hierarchy in the United States that systematically transfer income from the very poorest to the very richest. And the name of this structure is American democracy."

Sitting around the kitchen, we may tell ourselves that these three institutions that house victims are not internally organized to do anything about it. They're not quite sure who stole the goods. It's awesome to say that both major parties stole the goods. It's sobering to think that something called "Wall Street" stole the goods. We wouldn't want to speculate that that great reform institution -- a product of populist agitation but certainly not anything the populists wanted -- the Federal Reserve System now persists as an instrument of stealing the goods. We can't have people who donate money to the Episcopal Church and then pay their taxes and wear proper top hats and coats being part of the structure of stealing the goods.

The reason we don't want to make this indictment is that it's too sweeping. It breaks the paradigm in which we are trained to think. It produces speculations that are not culturally admissible around dinner tables or even kitchen tables. To the extent that we can create a conversation in a room like this and develop a level of candor, of analysis; to the extent that we think there's nothing we can speculate about that would be subversive or unpatriotic; to the extent that we can create intellectual space to be serious about our society -- then two contradictory things occur. Number one, we’re enhanced by the sheer authenticity of the conversation. Second, we’re depressed by the discovery; if what we know is true, how are we going to persuade those people out there, otherwise known as the Americans, to think seriously about the state of the Republic?

We have a recruiting problem. Here we are in the kitchen, sitting around the table, talking, and out there are the suffering multitudes. What is the connecting link between us? Well, let us go back to 112 years ago. Their situation is perfectly analogous to ours. They looked for a recruiting device and they found one. The collective problem of farmers was lack of access to credit they could afford. They were paying 30, 40, 60, 80 percent -- sounds unbelievable. But you might be paying more for credit today than you know. We may have reached the Biblical level of usury some time ago.

In any case, these co-ops they created were going to try to do for the farmers collectively what they could not do individually: gain access to credit. People joined the Alliance Co-op and the Alliance grew. In a county there would be hundreds of suballiances of 20-50 people each. And each one had a lecturer who would help them analyze the world. And there were 250,000 members in Texas and 140,000 in Kansas and 130,000 in North Carolina. Eventually the Alliance penetrated into 42 states and there were 2 million people who, in effect, developed a new way to think.

Along the way, in their struggle to get large-scale co-ops functioning, they discovered that the banking community in America did not cooperate. They discovered, too, that the problem of the Alliance was the problem of individual farmers: lack of access to credit. One of their number, Charles Macune, felt the pressure of this failure more acutely than anyone else, because as spokesman for the Alliance he had made projections for people -- "Join us, and collectively we’ll try to change the way we live." And he was not able to deliver on his promise. He’d tried a thing called the joint note plan and it hadn’t worked; again the bankers wouldn’t cooperate.

So in the summer of 1889, brooding about the political trap he was in, brooding about the plight of the nation’s farmer, brooding about the structure of the American economic system, he came to the Subtreasury Plan -- which doesn’t need to be explained in detail here. What needs to be suggested is the Plan’s one compelling breakthrough, which is just as logical and humanitarian and democratic now as it was then. He thought you could mobilize the capital assets of the nation in an organized way to put them at the disposal of the nation’s people.

That is a democratic conception that is not on the stage of contemporary debate. It is too broad. It is beyond our imagination. That is not on the agenda of the Democratic Party or the Republican Party. In fact, we’re in an era where those tiny pieces of the capital assets of the nation that somehow were smuggled to sectors of the society that are not rich are slowly being shipped away. Since 1980, the lowest 20 percent of the American people in income have had a real income drop of 9 percent. And the top 20 percent of the American people in income have had a real income gain of 19 percent. And the top 10 percent of that 20 percent have had a real income gain of 29 percent.

In the last nine years we have witnessed the largest redistribution of income in American history; that is, from the very poorest to the very richest. And there's no institution of large scale in the country that says this central economic fact of our decade should be at the center of public discussion.

Now that's stability. That is the creation of a culture so narrow that no one in the seats of the mighty need tremble because some serious people have gathered in a union hall in St. Louis on a Saturday morning to speculate on the possibilities of a democratic society. They are not nervous on Wall Street this morning. And if they are it's because of their concerns about their own actions, not ours.

There is another society in our time -- what we call "the East," what we sometimes call "actually existing socialism." For about 40 years, since Stalin imposed this system on whole populations, an idea floated around in people's heads over there, in "the East." The idea was, "We will try to create some space where we can talk to each other and affect the world we live in. To do that, we're going to have to combat the leading role of the Party. We're going to have to find some way to get around the fact that all the social space in society is occupied by the Party."

This idea would float around kitchen tables on the Baltic coast in the 1950s and 1960s. And workers in shipyards would say to each other, "We have got to create a trade union independent of the Party." Now that is an unsanctioned idea. And they knew it was frightening even to say it out loud; you'd only say it around the kitchen table, around carefully selected brethren and sistren. And the idea would go away, because it was unsanctioned. But then there would be another horrible accident in the shipyard, another insane adjustment of work routines, and the idea'd come back, simply because it was the only idea that made any sense. "Work organized by the Party is insane, Poland is insane, our social life is insane. We've got to have a union free of the Party."

Over 35 years of self-activity the world has not known about -- any more than the world knew very much about how the Farmers' Alliance organized Populism -- they found out how to do it. And in 1980 they did it. There's a certain logic in history every now and then. The single most experienced organizer in the shipyard in Gdansk, Poland, who spent 12 years organizing and brooding about a union free of the Party, who had gone to jail scores of times in the decade -- learning each time a little bit more about how power worked in his society -- the one single most credentialed worker with other workers based on his own activity, is Lech Walesa. There is every now and then a certain justification in history.

Because that movement existed, even though it was repressed by the government after 15 months, it sent a wave of hope across Eastern Europe. What Solidarnosc combatted, by its simple existence, was mass resignation. This resignation was the dominant political reality in Hungary, Czechoslovakia, East Germany and Poland until the shipyard workers of Gdansk became the nucleus of a mass movement, one of those rare moments in human history when people get back in touch with their own subjectivity. That is to say, they don't lie in public. They say what they mean. And they try hard to say it clearly. They're not trying to make a speech, they're not trying to be an orator. They're trying to be clear, like two people in a marriage struggling not to be political with each other but to be honest. One of those rare democratic moments when reality is projected.

Because Solidarity stayed alive during the years of martial law, and because a man named Brezhnev who put down Solidarity passed off the stage of history and another man named Gorbachev who would not put down Solidarity came on the stage of history, the leading role of the Party this very week is going into the dustbin of history all over Eastern Europe.

What if we were to suggest to the American people that we can’t do anything about the homeless, we can’t attack the crisis in the cities, we can’t do anything about the inability of the children of unionized workers to own a home of their own because America has been sold to foreign creditors, because it’s being de-industrialized -- we can’t do anything about any of these matters if we don’t democratize the financial system in this country? In other words, we can’t do anything until we get back to being as advanced as we were in 1889 in this city when the subtreasury system was first introduced.

We can’t suggest it because that idea is too much. It’s too advanced; it’s not properly modest. "Why, you people sound as if you’re as crazy as those people in Eastern Europe who want to overturn the leading role of the Party."

But if you have the long-distance view, if you say,"Give ourselves 20 years. Let’s see if we can begin the process of educating ourselves and the American people about the idea of a democratic system of money that will save what is left of the American family farm, that will pump life into the cities, that will permit the young to dream that they might own a home of their own, that might somehow begin to chip away at the culture of corruption that is now the norm in public life . . ."

If we can do that, if we can say what we know clearly and endeavor to act quickly and firmly on what we say, then I think we’re living a valid political life. We may not change the world. But then again we might. Some Polish shipyard workers offer us an intelligent guide to authentic politics. The choice -- to speak clearly, to act -- is ours alone. As for result, we’ll let future historians judge that. Our work is now.

William Greider

We sat in this room, about 25 of us, for the last two days looking at those words "democratic money" and talking about exactly what they mean. Pat Barry from Seattle said, "Well, I know democratic money; it’s money I can put my hands on!" And you know, that’s not bad for a shorthand definition.

It is perfectly plausible for the financial system of this country to put money into people’s hands, to make credit available for ordinary Americans at rates they can afford. The economy could be managed prosperously and equitably, serving all groups -- not perfectly, but with some sense of justice that we would all recognize.

There is no physical reason in economics why that can’t happen. There are huge, intimidating political reasons why it did not happen in our history. In fact, at the very center of our politics is this subject, called "money and the regulation of credit, that we have been told we can’t talk about.

We are, all of us, literally educated into ignorance on this subject. We are told we don't have the credentials, the expertise, the language to talk about these things. A few minutes ago, I spoke with two people in the back of the room who told me things about the St. Louis economy and asked questions about monetary policy that were right on the money. But both of them felt the necessity to say, "I'm not an economist." Let me turn that around: We are all economists, in the true sense of the word.

What stymies us is the notion that there is some great economy in the sky. There's a larger economic calculus that, even though it doesn't work for us, somehow works for society as a whole. It's just that we don't understand, or appreciate, its superior logic.

Finance isn't simple. It'd be silly to pretend otherwise. But everybody in this room, if they had the time and the commitment, could understand the conceptual structure of our financial system or how the Federal Reserve functions. If you can understand pro football, you can understand monetary policy.

As practicing economists, what do you bring to the discussion of money and credit that the experts often don't? Each of us has our own native values, common sense, what we learned from the Bible as children, what we learned from our mothers about what's right and wrong. Those are all economic ideas, though the way economics is organized all of those things are excluded.

However if you bring what you already know to the subject of finance, it will lead you to the conclusion that this system is not only not functioning in our interest but it really offends our deepest values in profound, continuing ways.

Let's look at an example. We have a housing crisis in this country. It's on the streets of every city and town in America. And it cuts across the broad middle class because the younger generation is literally being priced out of owning a home. In the last decade, the so-called "baby boomers" entered the housing market and we fell way, way short of housing to accomodate them. The results have pushed every way through the society, up and down.

Nobody got up and asked, "Shall we abandon the commitment to home ownership this country made after World War II?" It just happened, mainly through the deregulation of finance and the Federal Reserve tromping on the economy for 10 years. You haven't read it in your local newspaper or in the *Washington Post* or the *New York Times,* but the chairman of the Federal Reserve has confirmed in open testimony that the interest rates of this decade in real terms -- that is, when discounted for inflation -- are the highest of this century. To most of you that probably sounds counterintuitive. You've been told over and over that after Jimmy Carter left town, interest rates plummeted and everything was OK. Literally the opposite is true.

By pushing real interest rates up, the government -- through its policies, without debate -- is worsening the housing crisis. High interest rates drive people out of homes and suppress the demand for housing construction. Homeowners and homebuilders can't carry the load. Even the barriers to credit that bankers have erected for have-nots -- "You don't have enough cash, you don't have a reliable income" -- are just another way of saying, "You can't afford these interest rates."

Where's the debate on these issues? As the Federal Reserve raises rates and the housing industry sinks, the only discussion is among economists haggling, "If the housing industry is off by 25 percent, is that a recession? No, that's not a recession because it was much worse in 1982. And besides, most of the people who want houses already have bought one."

Take another example. We need an economy expanding at a pace that creates jobs and allows real wages to rise instead of fall. We all know wages in real terms have been falling for the last ten years and more. But at a certain level of our society -- namely, at the Federal Reserve and Wall Street investment houses and other places I've been as a reporter -- the decline of real wages is cited as one of the triumphs of the 1980s. Those who are less subtle will say, "Those workers in Pitttsburgh and Detroit and St. Louis all have three cars. They're going to be fine."

Others will say, more sympathetically, "It's a shame that real wages have to decline, but that's the only way for this country to get through the next 25 years." And they're not joking about the next 25 years. They believe that American workers must adjust to world wage standards driven by the labor market in Bangladesh.

I say to them, as the bleeding-heart reporter, "Do you have any idea what that's doing to people in this country? Have you been to any of the places where the most visible consequences of your actions are playing out in lives? And whether you care about those lives or not, don't you see yourself setting up a really ferocious political fight in this country when people finally wake up to what the game is?"

And their answer is: "Well, it's been going on now for 15 years. We keep electing Republicans and everything seems to be holding together pretty well. In fact, the American people have been real grown up about this. They've absorbed the decline without much of a squabble."

You know what? They're right, on that political point. I still believe that their day of reckoning is coming. But I have to concede it ain't here yet.

Meanwhile, the real policies our government sets -- and I distinguish the real policies from the rhetoric of political debate -- is making this problem worse at this very moment. A year ago, I was talking to a United Auto Workers group and said with total confidence, "You are going to get layoffs in the summer and fall. You're heading into a big contract season and you're going to be in the worst possible position because of what the Federal Reserve is doing right now. And you're not even privy to a debate over the Fed's decisions." Now we are seeing the prediction fulfilled.

The reason I knew that was quite simple. The Fed was deliberately pushing up rates in 1988 and into early 1989; once they've pushed up short-term interest rates to a certain point, the experience is predictable. The consequences feed through the economy and hit those industries -- particularly manufacturing and agriculture -- that are very sensitive to interest rates. They retreat from the marketplace. They don't have any choice; they literally get priced out of the market by their own government.

That's what the Fed wants to happen. They have a long, elegant argument as to why that's good for all of us. But if the government is going to do this to people -- and do it to certain sectors with considerable harshness -- in a democracy, do we not at least owe those people fair notice? Is that too much? Couldn't these various parties who are about to be victims of government economic policy at least be told that certain things make this necessary?

Now, of course, the opposite is the case. The Fed understands perfectly well that if it announced what it was doing, it would set off certain reactions. People would say, "Hey, wait a minute, let's go back and look at your reasons a little more closely. We know what's happening to us. Let's sit down at the table and argue a little bit about what's really good for the American economy."

That debate, like the others I mentioned, does not occur in any place, in any form. And that's not an accident. Once you recognize that this great big ball in the sky called economics is in fact politics, you recognize it's an argument that in a democracy has to occur among different perspectives, different interests, different levels of wealth and status.

There are many places where the argument can be joined. The closest thing that exists in America to a public debate over the Federal Reserve and monetary policy is the credit markets column in the back of the third section of the Wall Street Journal. Unfortunately the only people in the debate are bond traders on Wall Street. If you follow that column, one of the things you read repeatedly is, "The economy is too healthy. The economy is too healthy. We're in danger of too much growth. Unemployment is falling!" They're talking to themselves. None of us are listening, right?

What if you called up the reporters who write that column and say, "Hey, you know what the sheetmetal workers think about monetary policy?" I guarantee you, they would say, "Well, gee, why do you care?" Then you could explain it for them. Since they're decent human beings, they'd listen to you. They might even quote you in the credit markets column.

Those of us who believe in the idea of democracy are confident that once a large number of informed citizens join the financial debate, we'll get a profoundly different outcome than the one we have now.

What would democratic money look like? For starters, we need to re-regulate the financial system. That means reinstating limits and controls on financial institutions -- not just S&Ls but commercial banks, investment houses and all the other players.

Those rules would do two things. First of all, they would impose some safety and soundness so we don't have to keep bailing out these guys time after time. We want a sound financial system. Nobody's quarreling with that. But it's out of control because of deregulation. The smart people on Wall Street know that.

Second, the rules would reassert principles that were alive in this country 30 or 40 years ago. Finance is a part of the social fabric of this country. It is not a free marketplace that allows accumulation on one side at the utter ruin of the other side. In a democracy, the financial system has to reflect national priorities and social values.

Exactly what are those priorities? I mentioned housing. If you're familiar with the housing industry, you know that from World War II on, S&Ls and limits on interest rates were designed with a social purpose -- to stimulate housing construction. The goal was to make home ownership as universal as possible. And for 40 years it worked.

It is not complicated to adjust the financial system today to make sure there's enough capital available for housing. You do it by driving down interest rates for first-time home buyers and by building a lot of housing in cities so that we get homeless folks off the streets. Those things are all quite doable.

We can also design a new set of controls to curb inflation without punishing the wrong people. The system we have now literally scapegoats certain sectors in the society -- manufacturing, labor, farmers, oil, a few others -- when somebody else is inflating their prices. Attacking inflation selectively, in the appropriate areas of our economy, also is very doable.

Those are the simplest kind of social goals but there are many others -- industrial redevelopment, community development. We could all make a fairly lengthy list of our priorities for this society and design the ground rules that compel the financial system to serve these priorities rather than subverting them.

Finally at the core of this, I mentioned the Bible. Larry mentioned usury. The evolution of capitalism involved societies overcoming their moral inhibitions and convincing themselves that lending at interest is a creative process. That's what they argued about in the Middle Ages.

For several generations, we've been taught by economists that usury is an archaic word that has no real meaning in economics. Their view is that usury is a crime without victims. "If somebody wants to lend me money at 100 percent interest, I'm a free citizen; I can take it or leave it. If I go blooey, nobody gets hurt but me."

The reality of our economy, of course, is that most people don't have a choice. In the 1880s, farmers didn't have a choice of whether they would pay 35 percent, or 50 percent or 100 percent to plant their crops. Not paying the interest rate meant not farming.

Our society is organized very much in the same terms. Not only at the individual level but within corporations, where most of us live. For most enterprises, the decision to accept or reject the interest rates of this decade is really a decision of shall they continue in business or shall they throw in the towel. Most individuals and most businesses, not surprisingly, choose to go on and take their chances. Many were destroyed.

Here's an illustration of how this works across the economy. If the level of real interest rates that everybody is paying every year on their borrowed money is running at five percent, and the economy -- everybody's return and output -- is growing year after year at, say, three percent, there's a two percent gap. We've got to reach in our pockets as a nation, every year, and pay an extra two percent out of our savings to make up that gap. To cover those lost savings, we then have to borrow again the next year at five percent and our return -- that is, the growth of the economy -- will once again only reach three percent. Year after year, you have to come up with more money to pay the interest. That's why America's assets are being sold to foreign investors.

The farm crisis in the 1980s was a classic case of what I'm describing. Corporations that have been taken over in highly leveraged transactions are up to their ears in debt, and every month they've got to pay the banker. They don't have any choice, any more than you or I have a choice. How do they pay the banker? They cut costs. What does that mean? It means close the factory, sell the equipment and send the workers home. And go borrow more money.

So the coporation is getting smaller and less productive in order to keep up with its lender. Sure, there are some corporations, just as there are some individuals, who stay ahead of the game. But if you do that long enough across a whole society, the economy will sink under the burden.

That's literally what's been happening in this decade. It's an inexorable process. If it continues, we will continue to see financial crises, failures, recessions either regional or national in scope and all the other deleterious effects as more debtors fail. I think that's an inescapable formula. Most economists, while they would have a much rosier view than mine, would not dispute the logic.

But I have a better authority than them. If you strip away the different definitions of usury advanced by Judaism, Christianity and Islam, the essence of each is that it's immoral to allow an ongoing credit transaction which is guaranteed to doom the borrower. Roughly speaking, that's what we are permitting now. It's happening in a less distinct way than in the 1880s, so people have a much harder time seeing it. But like most of the great moral principles articulated in the Old and New Testaments, this one is grounded in social reality. A society cannot endure under such a self-devouring regime.

Reason would tell us we've got to find a way out of that regime. Unfortunately, you can't very easily go to a congressional committee and make the usury argument in the words I have used. If you tried, it would fall on utterly opaque minds, because they are also very ignorant. And I say that with some sympathy. Politicians are trapped in this system as much as anyone else and they too have been educated into ignorance. They don't see the way out either.

Most people at the very top of our government -- presidents, their economic couselors, the Congress -- are utterly innocent of how this system works. As a reporter I've seen that again and again. The closer you get to the inner room, the more you see human confusion, error, misguided intentions. They're as fallible as the rest of us.

At most three dozen members of the House and Senate genuinely understand monetary policy. The system is designed that way. Constituents will come to their representative's office and say, "The Fed is closing our plants, it's crushing our farmers," and he'll say, "That's terrible, I'm with you." Then he'll take to the floor of the House and denounce the Federal Reserve in the most flamboyant language. Well, the Fed understands that part of its role in the system is to be the public scapegoat occasionally for doing things politicans would get un-elected if they did.

Most members of Congress are quite unconscious of how they play out these charades. As soon as the Fed changes course and a recession begins to subside, the Congress falls silent and nothing has been changed. They haven't reformed the Fed. They haven't democratized it. They haven't pursued any of the questions their constituents wanted pursued. Until the next recession when they make the same speech again.

I don't think our political leaders are going to see their way out, frankly, by reading my books, or Larry's, or by listening to our speeches. The only way you can educate them is to begin humbly in places like this by convincing average people that they're perfectly capable of taking this stuff on if they trust their own common sense and values and have the guts to assert them. If enough people begin to do that, you'll then have a voice that can speak to the system with the logic of truth.

I don't think I'm revealing anything when I say that reformers wading into this turf put themselves up against the most powerful political interests in this country. As Larry said, you look at the reality and you get depressed. Amen. That is the first reaction. But there is this counterweight.

If you ventured round the country, you would realize you are not alone -- that there are many different interests, not just trade unions, workers or poor people but corporate CEOs, homebuilders, insurance agents who share your views. There's a world of people out there that if presented the same six facts, would agree with you on five of them, maybe six.

That's the counter to entrenched political power. It may sound naïve, but I read Larry's history books and I believe them: if you can tell the truth about these things, that can become power.