

Interactivity Foundation

# *Money, Credit, & Debt*

*Policy Possibilities for Public Discussion*

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# CONCEPTUAL POLICY POSSIBILITIES

## FOR PUBLIC DISCUSSION

### A. Cut the Card

*This possibility would promote values and habits of personal responsibility, self-control, saving, and living within our means in an effort to reduce frivolous consumption and debt.*

### B. Put The Public Good First

*This possibility would put the public good and the public interest above special interests by taking whatever steps are necessary to pay down our national debt and ensure our nation's financial solvency.*

### C. Focus on Fairness

*This possibility would focus upon ensuring fair and equitable treatment of the poor and underprivileged members of our society as we address concerns pertaining to money, credit, and debt.*

### D. Let Markets Work

*This possibility would minimize government regulation and subsidies of money, credit, and debt in an effort to maintain free financial markets and reduce the possibilities for moral hazard in the financial system.*

### E. Shrink the Financial Sector (and Reform It Too!)

*This possibility would limit the size of financial institutions to ensure that none of them are 'too big to fail' or exert too great an influence upon our lives. It would also try to shrink the size and influence of the financial sector, and to reform it, so as to limit the detrimental effects that it has upon our society and our way of life.*

### F. Stop the Presses, and Preserve the Value of Money

*This possibility would place strict limits on the amount of new money that we can create in an effort to preserve the dollar as a stable store of value.*

### G. Stand Strong

*This possibility would defend the use of the dollar as the world's primary reserve currency, and it would maintain a strong dollar in an effort to expand both international trade and the international demand for dollars to support it.*

### H. Manage the Decline

*This possibility would manage the decline in the expectations that Americans have of their economic and political systems by taking steps to acclimate them to the economic rise of other countries and our increasingly weaker position in relation to them.*

### I. Default—And Work It Out

*This possibility would accept the fact that we will not be able to reduce our national debt to a sustainable level, and that the best option that we have is to default on it openly, instead of by stealth, and to restructure the spending obligations that have produced it.*

# THE IF DISCUSSION PROCESS & THIS REPORT

**The Interactivity Foundation** (IF) aims to improve public policy by encouraging citizens to participate in democratic discussions about their governance concerns and the different policy possibilities for addressing them. Our reports can help such discussions by providing a conceptual springboard for citizens who want to explore the different policy possibilities and ends we might want to achieve as a society.

**Public policy discussions** too often focus upon specific actions that governments might take to address a problem instead of the broader conceptual possibilities that might inspire them. This is unfortunate, since the wise choice of a public policy requires an exploration of a wide range of conceptual possibilities—including the different concerns, questions, beliefs, values, goals, and interests that might motivate them. IF believes that governments are too often elected and public policies are too often enacted without the consideration of a wide range of contrasting conceptual policy possibilities pertaining to what we might want to achieve. We thus support projects designed to explore, develop, articulate, and test contrasting conceptual possibilities for public policy in selected areas of concern. We believe that our projects and the conceptual policy possibilities that we develop in them can help people to explore an area of concern with their neighbors and to make individual choices about the public policy possibilities they want our society to pursue.

**The aim of IF is *not* to recommend** or advocate any of the conceptual policy possibilities described in our reports, or any of the specific actions that might be taken to implement them. It is to improve public policy by helping people to talk about their governance concerns and about the different conceptual policy possibilities for addressing them. The policy possibilities that we present in our reports are developed by citizens in confidential ‘sanctuary’ discussions for use by their fellow citizens in ‘public’ discussions that IF organizes throughout the United States and abroad.

**With the support of IF**, two discussion panels met in Washington DC on a monthly basis from February 2011 through March 2012 to explore the governance concerns people might have about money, credit, and debt, and the contrasting conceptual possibilities for addressing them. One panel consisted of interested citizens, the other of

people who work with policy issues pertaining to money, credit, and debt in their professional lives. Our panels met for over 100 hours of sanctuary discussions in which they explored contrasting conceptual possibilities and developed their ideas as individual citizens rather than as representatives of groups, institutions, or special interests.

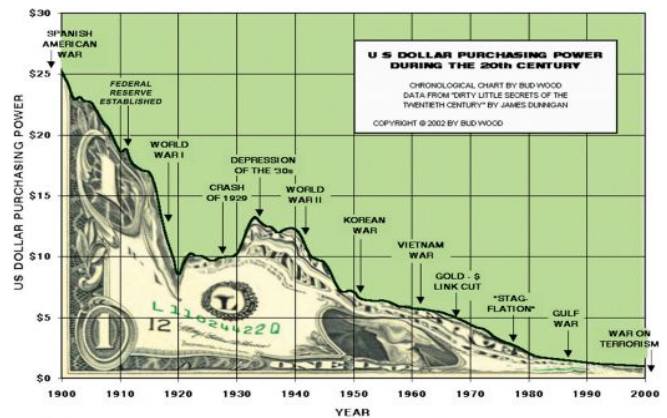
**This report** describes nine conceptual possibilities for public policy pertaining to money, credit, and debt that our panelists explored, developed, and tested during the course of their discussions. It also describes the concerns that they thought people might have about money, credit, and debt; the actions that they thought might be taken to implement each of the conceptual possibilities that they developed; and the practical consequences that they thought those actions might have for individuals, groups, institutions, and society at large. It does not, however, promote or advocate any of these possibilities for anything other than public discussion. There are possibilities in this report that none of our panelists would endorse, but which they nonetheless thought should be part of the public discussion about money, credit, and debt. We do not believe that these are the only possibilities that might be useful for public policy pertaining to money, credit, and debt. But we do hope that they will be illustrative, and provocative, and worthy of your attention.

*The aim of IF is not to recommend specific policy possibilities or specific actions. It is to improve public policy by helping people to talk about their governance concerns and about the different conceptual policy possibilities for addressing them.*

# MONEY, CREDIT, & DEBT

## AS AN AREA OF CONCERN

It is often said that money makes the world go round, and that credit and debt are necessary for creating and preserving a healthy economy. Our Constitution gave Congress the power to make money, and prohibited any state from making anything but gold and silver legal tender for paying debt. But Congress delegated this power to the Federal Reserve Bank in 1913, enabling it to create money out of thin air and to lend it to the United States through its purchase of US Treasury bonds. Since then, our government has taken the United States off the gold standard twice. Roosevelt did it domestically during the Great Depression so that the government would be better able to fulfill its domestic debt obligations. Nixon did it internationally in 1971 to prevent foreign nations from draining our gold reserves when it became clear that we had printed more paper dollars than we could ever redeem in gold. The move was said to be temporary. But that was over forty years ago and we have not returned to the gold standard. Today, paper dollars are Federal Reserve Notes. They are 'legal tender for all debts, public and private'. But they are backed by nothing more than 'the full faith and credit of the United States'—which simultaneously makes our money both a credit and a debt. Still, most of our money does not exist as paper notes at all, but as numerical entries in ledger accounts, or flashing lights on financial institutions' computer screens. This money is lent into existence by ordinary banks through the 'miracle of fractional reserve banking', which allows them to lend out 90% of every deposit they take in—over, and over, and over again, so that an initial deposit of 100 dollars can be used to lend 90 dollars, which, when deposited in a bank, can then be used to lend 81 dollars, and so on—so that the original deposit can ultimately create 900 dollars of new money. But what is, perhaps, more to the point is that, while the value of gold has generally remained stable, the US dollar has lost 95% of its value since Congress created the Federal Reserve Bank, and our national debt has risen from almost three billion dollars in 1913 to over fifteen trillion dollars today.



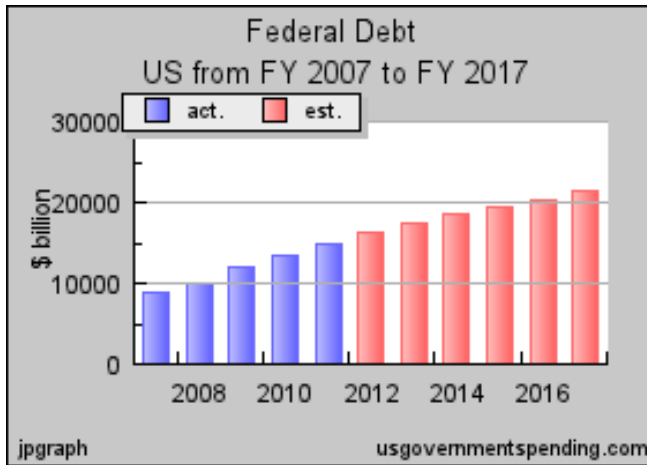
**Credit and debt** are clearly necessary for a prosperous and smoothly functioning economy. They grease the wheels of production; help innovators transform their ideas into reality; and give all of us material comforts, choices, and opportunities that we could never have without them. But as this report goes to press, the 'Total Public Debt Outstanding' of the United States is over 15 trillion, 200 billion dollars—nearly 49,000 dollars for every man, woman, and child in the country. The federal government now borrows forty cents of every dollar it spends, and we owe about one-third of it to foreign countries, notably to China.



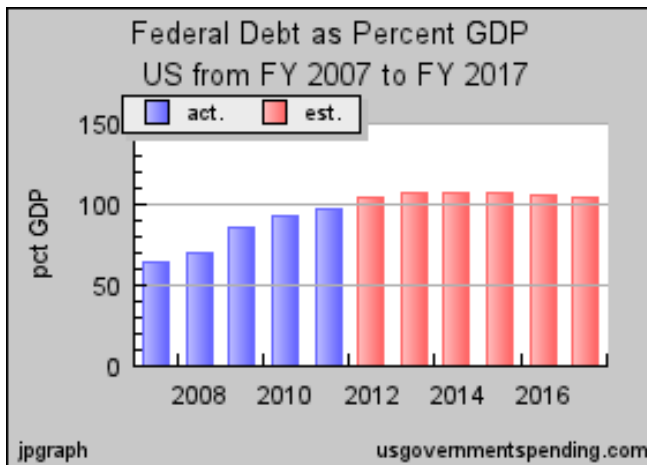
**Our debt** has been growing at a rate of nearly 4 billion dollars a day since 2007, with accelerating increases over 1 trillion dollars a year each year since 2008—and it is projected to rise to nearly 20 trillion dollars by 2015.



## INTRODUCTION



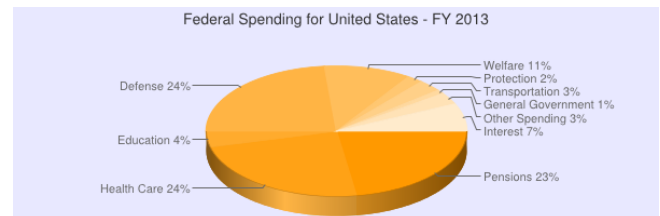
**More telling**, our ratio of external debt to gross domestic product—a measure of the total size and output of our economy, and an indicator of a country's ability to pay its debt—is now over 101%, up from 69% since 2007, and over 115% if calculated in 2005 dollars.



**This very high debt ratio** is what makes our debt alarming. Many Americans think that it is impossible to ever pay it. But in 2011 alone, we spent over 454 billion dollars simply to pay *the interest* on it. This is only what the government owes. Today, private US consumer debt in the United States, excluding mortgage debt, totals nearly 2.5 trillion dollars. The average household credit card debt of households with credit card debt is 16,000 dollars. Mortgage debt adds nearly an additional 14 trillion dollars to the tab—or more than 52,000 dollars for every man, woman, and child in the country, though not every man, woman, and child is actually saddled with consumer and mortgage debt.

**No one knows** whether it is possible to pay this debt—or what would happen to our economy, to our country, and to us as individuals if we do not. But we do know that it will constrain our flexibility and our options in the future. This is why money, credit, and debt have now become an overriding concern for individual Americans and the nation as a whole.

**Credit** has made many Americans more wealthy and prosperous than ever before in the history of our country. It has, by making it possible for them to 'buy now and pay later', enabled them to plan their lives; to buy cars, homes, home appliances, and college educations; and to live more comfortably than their grandparents could have ever imagined. It has, in short, enabled many Americans to achieve the American dream. But debt has made the American dream a nightmare for many others. They live in fear of personal and national bankruptcy. They worry about how they will ever pay their credit cards and mortgages, whether Medicare and social security will be there when they need them, and what their savings and pensions will be worth when they retire.



**Today**, many Americans, and indeed Washington itself, live from month to month paying only the minimum on their debt and never paying the principal. But instead of encouraging us to save our money and live within our means, public policy and governments of both parties continue to encourage us, via tax incentives and the 'moral hazard' that it will 'bail out' those who get into too much trouble, to 'spend ourselves to prosperity' by assuming increasingly larger debts, with exponentially increasing interest, to 'help the economy'. Our leaders have told us, in effect, to ask not what our economy can do for us, but to ask what we can do for our economy. And today, many Americans have resigned themselves to a future in which they will leave their assets and wealth not to their children, but to the banks and creditors that have lent them money.

*But what is money and what real value does it have now that it is no longer backed by anything real? How is it related to credit on the one hand and debt on the other? Why do some people have so much of it and others so little? How can something be worth a fortune one day and nothing the next? Will we ever be able to pay off our national and personal debt? And what, if anything, do you think will happen if we do not? Do you have any idea of what an economic collapse involving trillions of dollars might involve? And do you sometimes think that money, credit, and debt might ultimately be a big Ponzi scheme created by some evil demon who has much more intelligence than you?*

**These questions** reflect broad concerns that Americans have about money, credit, and debt. Our panels used them, and questions like them, as springboards for discussion. They developed long lists of questions, values, beliefs, goals, interests, and concerns that people associate with money, credit, and debt—and long lists of policy possibilities for addressing them. But they purposefully did *not* try to *define* the words ‘money’, ‘credit’ and ‘debt’, let alone once and for all. They instead explored many different concepts of money, credit, and debt—and their exploration of the concerns that they associated with them eventually led to the development of a rich set of *contrasting* conceptual possibilities for public policy pertaining to them.

**Money**, according to our panelists, is a store of value and wealth, a means for exchanging goods and services, a unit of account, a social institution or construct for exchange, a universal measure of value, and a way for prioritizing our values. They said that it is universally desired commodities, such as gold, silver, oil, and salt; a government backed currency that is made legal tender by government fiat; an electronic means for making transactions; whatever it can buy; and something that does *not* have any value except for the purpose of exchange. Our panelists said that money gives information about values, including the value of a person’s contributions to society; that it is a reward for hard work; and that it is also a way for someone to assess his or her standing in a society.

**Our panelists also said** that money is power, energy, and security; the road to the good life; and something that makes happiness possible. They said that it is someone owing something to someone, an asset of the public, a liability of the government, and a function of credit and debt that is built upon faith and trust. They said it is an opportunity to help others; a way to establish a legacy; something that can give you access to political power and make you a ‘player’. They said that it is a justification for many activities. And they said that it is a means for manipulating people; that it enables you to make friends, and to make enemies of your friends; that it is something that creates pathologies, such as greed and miserliness; that it drives out truth and attracts thieves; that it is the root of all evil; and that it is ‘Hollywood and Disneyland’.

*The recent increase in debt has been the result of three sets of factors: an imbalance between federal revenues and spending that predates the recession and the recent turmoil in financial markets, sharply lower revenues and elevated spending that derive directly from those economic conditions, and the costs of various federal policies implemented in response to the conditions.*

*Congressional Budget Office  
July 27<sup>th</sup> 2010*

**Credit and debt** is another thing. Our panelists said that they are opposite sides of the same coin; a way of creating, expanding, and controlling the money supply; a way of stimulating the economy; and two of the greatest societal inventions of all time. They said that credit and debt are different things to different people at different levels of affluence; that they are now almost synonymous with money itself; and that they are a fact of life for most Americans. They said that credit and debt are the power to acquire things now that you will pay for in the future, that they allow for inter-temporal transfers of money, that they give us access to things that we can’t afford with the limited funds we have available, that they provide a way to meet emergencies, and they enable us to plan for the future. They also said that they are a means of controlling people, and are good domestic and foreign policy since they give us control over ‘subordinate’ people and other countries’ policies.

## INTRODUCTION

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**Our panelists also said** that credit and debt are a means to explore and develop new ideas, that they enable people to borrow money to invest in them, that they thus stimulate innovation, facilitate production and trade, create foreign markets for our products, facilitate globalization, lead to prosperity, and are a form of wealth itself. They said that credit and debt are also a business, that they are mechanisms for transferring purchasing power from people who save to people who borrow, that they are commodities that are bought and sold, that they are a clever way for making money, that they can result in the creation of artificial wealth, that they are temptations that can become addictions, and that they can easily turn people into slaves to their creditors and interest rates.

**There are many concerns** pertaining to money, credit, and debt that our panels explored on the personal, national, and international level. They said that the dollar has been steadily losing its value as a result of our inflationary policies, that it will very likely lose its status as the world's primary reserve currency, and that we will lose the benefits that accrue to us when other countries use it to settle international accounts. They also said that inflation might have an eviscerating effect upon their paychecks and their private savings, health care, and retirement accounts; and they worried whether they would be worth anything when it comes time to use them. And they worried that many Americans would be unable to adjust to unexpected high rates of inflation. Their greatest concern, however, was our debt. They said that our national debt is out of control, that we may well have to default on it in one way or another, and that it will eventually bankrupt our country if we do not do something soon to regain control over it. They said that America will lose its position in the world, and that many Americans will lose the social benefits and services they now enjoy due to the actions that we will have to take to regain control of it. They worried that we will have trouble adjusting to our decline in power relative to other countries. And they said that cutbacks in social benefits and services will hurt the poor and underprivileged, and may lead to social unrest and even violence in the streets.

**Our panelists worried** that the economy has become so complex that nobody understands it, and that we cannot rely upon the economic and financial information that we get in newspaper and media reports, because they often seem to be designed more to entertain us than to inform us. They said that many Americans are functionally illiterate about economics and finance; that they do not know enough about money, credit, and debt to make thoughtful policy choices about them or responsible use of them; they have lost touch with the values of saving, personal self-control, and living within their means; that they seem to regard credit as an entitlement; and that they have assumed levels of debt that are unsustainable as a result.

**Our panels also worried** about the growth of our financial sector, our preoccupation with it, and the effects that they have had upon the fabric of our society. They said that our economy has many fundamental strengths, but that our myopic focus upon economic growth as the most important measure of a healthy economy has led us to ignore other measures that may ultimately be more important; that it has fueled the growth of consumerism and the influence of consumerist values in our society; and that it has led us to spend more than we can afford to buy things that we do not need and may not even want, even if it means going into debt, in an attempt to 'help the economy'. They worried that many of our 'best and brightest' students have adopted these values, that they are increasingly becoming more concerned with making money than with making a 'real contribution' to society, and that more and more of them are seeking jobs in finance and investment firms instead of more traditional professions.

**Finally,** our panelists worried that many Americans, as a result of the growth of the financial sector and our preoccupation with it, have lost touch with the values of fairness, and with their duty to help the poor and underprivileged members of our society meet their basic needs—and that this might eventually lead to a society that pits each generation against each other as they each try to get what it wants most in life from money, credit, and debt.



*There were several basic concerns that our panelists returned to during their course of their discussions. They repeatedly said that:*

- *Many Americans have lost touch with the values of self-control, saving, and living within their means; they are deeply in debt as a result; and they eventually may have to pass on their assets to their creditors instead of their families and friends*
- *Our national debt is out of control due to government spending growing faster than revenues; it will eventually bankrupt our country if we do not do something to regain control over it; and many Americans may lose the social benefits and services that they need as we try to regain control over our national debt*
- *The cutbacks in social benefits and government services that we may have to make in order to regain control over our national debt will probably harm the poor and underprivileged members of our society, and many even lead to violence in the streets*
- *Governmental policies regarding money, credit, and debt have introduced ‘moral hazard’ into the financial system that prevents the financial markets from working as they are supposed to work*
- *The financial sector has grown disproportionately in relation to other industries in our economy and its values now exerts an unhealthy influence upon our personal lives and our society as a whole*
- *The US dollar is steadily losing its value as a result of inflation, and our savings and retirement funds may be worthless when it comes time to use them*
- *The US dollar may lose its status as the world’s primary reserve currency and we may, as a result, lose the benefits that are associated with its use by other countries to pay their international debts*
- *The US may lose its global economic supremacy as other countries become more economically successful, and we may have difficulty adjusting to our decline in global power and influence*
- *We may eventually be forced to default on our national debt in one way or another—either explicitly, or by inflating our money, or by debasing it in some other way*

**You should not think** that all of our panelists shared these concerns, or that there was any consensus among them about which are most important, let alone about what policies we could, or should, adopt to address them. On the contrary, some panelists thought that some of them are not, or should not, be concerns at all; that others are overblown by media hype and fear; and that still others will disappear of their own accord, even if we do not do anything about them at all. But they also disagreed about which were which. And they worried about the possible unintended consequences of the actions we might take to address them. So, consistent with IF’s ‘rules of the game’, we explored them all, and developed conceptual policy possibilities for addressing them all, so long as at least one panel member thought that a concern or possibility would be useful for public discussion.

**The possibilities in this report** represent different ways of thinking about money, credit, and debt that arise from different concerns, beliefs, values, goals, and interests. They are not necessarily consistent with each other—let alone reinforcing planks in a unified policy platform. They instead reflect fundamental differences in the way we think about money, credit, and debt; our financial institutions; our economy; our nation; and, indeed, our future. We think it is useful to explore these differences—partly because they lie at the heart of many of our public policy discussions and decisions; and partly because our national discussion about money, credit, and debt revolves around them.

**Finally**, we want to emphasize that this report does not advocate the adoption of any of the possibilities that it presents as our public policy toward money, credit, and debt. We do not present them in an attempt to forge a consensus for action among the people who might discuss them. We present them instead with the hope that each person who considers them will come to better understand his or her own mind, and that this will eventually lead to more thoughtful policy decisions. We fully expect that different people will have different concerns, beliefs, goals, values, and interests about money, credit, and debt. But we hope that this report will stimulate them to discuss them.

## CUT THE CARD

*This possibility would promote values and habits of personal responsibility, self-control, saving, and living within our means in an effort to reduce frivolous consumption and debt.*

**Do you believe** that consumerism, frivolous consumption, and the personal debt associated with them are all out of control in this country? Do you worry that our tax codes often encourage people to take on debt that they cannot afford? And do you think that many Americans have forgotten the habits of self-control, saving for the future, and living within their means that made this country great?

**This possibility** flows from a belief that the opportunity to buy goods on credit both enables us to command more financial resources and gives us more personal choices than we ever had before—and that this is generally a very good thing, since it can help us maintain a healthy economy. But it also flows from a concern that frivolous consumption, and especially the use of advertising to brainwash people into using credit cards to buy things that they do not really want, let alone need, has fueled a growing culture of consumerism that seems to be out of control in our society. Today, many people use credit cards as a new and more convenient form of money, paying off their accounts at the end of the month without incurring interest on them. But many others apparently cannot control their spending and have incurred levels of debt that are unsustainable. Today, too many Americans are living beyond their means—and the result is that our nation's total personal debt, including our mortgage and credit card debt, outstrips our total national debt and may eventually lead to a transfer of wealth that will alter the social fabric of our country. Today, more and more people are forced to pass on their property to their creditors, instead of to their families and friends, to pay off their debt. And tomorrow, the sons and daughters of today's prosperous middle-class may find themselves in a different and unenviable situation. This possibility would thus promote the values of personal responsibility, self-control, saving, and living within our means to combat consumerism and the use of credit and debt to finance frivolous consumption.

**Frivolous consumption**, and the debt that is associated with it, is a private problem that may, in some cases, even be an addiction. But it can also have effects that make it a public concern. Not all consumption creates value in our society. And people who lack habits of personal responsibility, self-control, saving, and living within their means may find it difficult to react properly if and when it becomes necessary to cut back on our public spending.



**Other Perspectives.** But even if you agree that the use of credit is on the rise, you may not think that it is a real concern. You may, on the contrary, think that access to credit is not only valuable, but essential for a healthy economy; that our use of credit for investment, consumption, and even for frivolous consumption has helped to make us the most innovative and prosperous country in the world; and that credit is one of the things about American life that makes it worth living. You may think that it is entirely natural for people to want to consume as much as they can, and that the values that would lead us to cut the card are more appropriate for countries that cannot produce enough goods and services to keep their citizens happy. Or you may think that we need to continue to consume in order to keep most of the people in our society employed. But if you think any or all of these things, then you might also think that high levels of personal debt are a small price to pay for an economy that gives us as much personal choice as our own—and that we should all go out and 'shop until we drop' instead of cutting the card.

**Possible Implementations***We could—*

- Encourage states to incorporate economics and finance materials in teaching about the American form of government
- Encourage credit card companies to teach their users about money, credit, debt, and the problems they may encounter by misusing them
- Tax personal consumption instead of, or in addition to, personal income
- Strengthen social institutions that promote non-consumerist values by expanding income tax deductions for them
- Encourage credit card companies to issue more ‘training wheels’ cards
- Provide consumers with annual reports showing their debt and the additional interest they will pay if they make only minimal payments
- Reduce government subsidies of and incentives for personal debt in our tax codes, and realign them to reflect their real costs
- Restrict the extension of credit to people who have shown that they are unable to control how they use it
- Initiate a national campaign to explain and promote the values of personal responsibility, self-control, saving, and living within one’s means
- Constrain the Federal Reserve’s ability to provide easy money by inflating the currency, preferably by eliminating it

**Possible Effects of These Actions***These actions could—*

- Help more Americans understand economics, finance, and their relationship to government on a basic level
- Reduce consumer credit card debt; help credit card companies defend themselves against charges of predatory lending
- Increase savings; increase investments; increase economic growth
- Promote a more balanced set of values among Americans; increase the number of institutions preaching non-consumerist values
- Help consumers to learn how to handle credit by using it more responsibly
- Focus consumers’ attention upon paying their debt on time; make them reluctant to take on more debt; reduce credit card defaults
- Show consumers the real cost of credit and debt; make them more reluctant to borrow; reduce the level of personal debt
- Reduce the number of credit defaults; promote more responsible use of credit and debt; protect irresponsible consumers from themselves
- Raise the consciousness of the nation about these values; result in more responsible use of credit; result in lower levels of personal debt
- Lead to greater price stability; eliminate the incentive to borrow and repay with cheaper dollars; reduce credit driven asset bubbles

**For Further Discussion...**

- Do you think that it is possible to change our culture of consumerism? If so, why so? If not, why not? And in either case, do you think it is really desirable?
- What role, if any, do you think public policy should play in shaping our personal spending habits? And why?
- Do you think that the potential benefits of restricting advertisement would justify the necessary infringement upon advertisers’ freedom of speech? If so, why so? If not, why not?
- Do you think that we can create a fair and sustainable economy without relying upon people to buy things that they neither need nor want to keep other people employed? If so, why so? If not, why not? And if not, do you think that we have a social obligation to buy things in order to keep other people employed?
- How easy, or difficult, do you think it should be for people to get credit cards? And why?



## PUT THE PUBLIC GOOD FIRST

*This possibility would put the public good and the public interest above special interests by taking whatever steps are necessary to pay down our national debt and ensure our nation's solvency.*

**Do you think** that our financial solvency is the primary public good? Do you worry that our public spending will one day bankrupt our country? And do you believe that the national debt is like household debt, and that we need to approach it in the same way—by working harder and tightening our belts?

**This possibility** flows from the beliefs that our nation's financial solvency is *the* public good, and that maintaining control over our public spending and national debt is always in the public interest. But it also flows from the concerns that our public spending and national debt are out of control, that we are endangering the public good by pandering to special interest groups, and that our debt and long-term deficits will eventually bankrupt our country unless we can bring them under control. This possibility maintains that special interest groups too often identify 'the public good' with benefits that come from government programs—while ignoring the effects that the public borrowing, spending, and debt that is necessary to fund such programs have upon our nation's solvency. Many people thus think that public health care and pension programs are in the public interest. But this possibility maintains that they are just as much special interest handouts as corporate subsidies, that they are in the public interest only to the extent to which they are solvent, and that they are solvent only to the extent to which we can actually afford to pay for them. It thus maintains that increasing our national debt in order to maintain such programs puts the cart before the horse. And it would try to restructure our national priorities by cutting public borrowing and spending; reforming entitlements; eliminating subsidies for debt; encouraging innovation and growth to raise more taxes; and stopping the uncontrolled growth in health care spending, which is the single greatest threat to our solvency, in an effort to put the real public good—our nation's solvency—above special interests.

**It will not be easy** to put the real public good above special interests. It will, on the contrary, require a shift in our attitudes toward democracy, welfare, debt, and the functions, powers, and limits of government. It will also require a national discussion about the relationships between social and personal responsibility—and the obligations that the 'haves' in a society have to its 'have nots'. This discussion may be painful. But it will be necessary to bring our public debt and long-term deficits under control. Once we do that, we can begin to talk about which social programs and entitlements we can afford.



**Other Perspectives.** But even if you agree that our national debt is out of control, you may feel that this possibility serves some special interest. You may think that governments, unlike private households, have the power to both levy taxes and issue money. You may feel that we are a wealthy nation; that we should be able to care for our poor, our sick, and our aged; that the government should take the lead in doing it; and that we should address concerns about our debt in a way that reflects our nation's values. Or you may simply think that improving our social programs is a more hopeful option than cutting them. But if you think any or all of these things, then you may also think that we should forget about reforming social programs and entitlements, and focus upon fairness instead.

## Possible Implementations

*We could—*

- Teach Americans that we must either pay more taxes or rely upon ourselves to pay for the things that government cannot afford
- Cap the size of the federal government relative to GDP at 20% or less
- Move to a more market based health care system that makes most citizens responsible for their own health care expenses
- Conduct research about why we are getting different health care outcomes from the same levels of health care spending in different parts of the country
- Reduce special interest spending, including subsidies to state governments, businesses, farmers, nonprofit groups, and individuals
- Impose a stringent ‘pay as you go’ rule on Congressional spending with no exemptions
- Pass a balanced federal budget amendment to the Constitution
- Improve the structural balance of the budget, not year to year but over time
- Reduce defense spending
- Adopt tax reforms that close loopholes in the tax code and tax reforms that stimulate economic growth

## Possible Effects of These Actions

*These actions could—*

- Curb taxpayers’ appetites for public programs; make it more difficult for politicians to pander to special interests
- Control spending; eliminate huge deficits; reduce flexibility for economic stabilization
- Reduce federal health care costs; increase efficiencies in the health care system; result in insufficient health care for the poor
- Provide a better understanding of the role of health care costs in health care outcomes and better measures of the cost of good health care outcomes; kick the can down the road
- Cut the deficit; reduce waste and corruption in the federal budget; help African cotton farmers
- Impose greater budgetary discipline; curtail spending with a shock to the system
- Force Congress to pay for its spending; limit its ability to engage in fiscal stabilization
- Result in a more flexible plan for maintaining fiscal discipline
- Cut the deficit; limit military interventions
- Reduce spending through the tax code; increase tax revenues through increased economic growth; cut the deficit

## For Further Discussion...

- Do you agree that economic solvency is the primary public good and that it should take precedence over all the others? If so, why so? If not, why not? And if not, which public good or goods do you think are more important?
- Do you think there actually is such a thing as ‘the public good’—or do you think that there only competing special interests, and that economic solvency is one of them? And why?
- Do you think that it is logical, or helpful, to conceive of our entire citizenry as competing special interests? If so, why so? If not, why not?
- Do you think we can provide incentives to encourage responsible spending by politicians, who must pander to their constituencies to get reelected, to prevent special interests from getting subsidies that benefit them at the public’s expense? If so, why so? If not, why not? And if so, what kind of incentives do you think might work best?
- Do you think that there are circumstances in which it would be worthwhile to bankrupt the US to achieve some other public good? If so, why so? If not, why not? And if so, what might that other public good be?



## FOCUS ON FAIRNESS

*This possibility would focus upon ensuring fair and equitable treatment of the poor and underprivileged members of our society as we address concerns pertaining to money, credit, and debt.*

**Do you believe** that fairness is the backbone of America and should matter more to us than economic growth? Do you think that the growing inequality of income and wealth in our society is both unjust and a potential source of social and political unrest? And do you think that we must find a fair way to reduce our debt without hurting the weakest and most vulnerable members of our society?

**This possibility** flows from the beliefs that fairness is, or ought to be, at least as important to our society as our financial health—and that the fact that our national debt is out of control is partly due to the fact that our competitive economic system is unfair, and partly to the fact that the rich in our society are not paying their fair share in taxes. But it also flows from a concern that making cutbacks in entitlements and social programs to pay down the debt will inevitably hurt the most vulnerable members of our society, and can easily lead to civil unrest and violence in the streets. This possibility maintains that our country is controlled by large corporations and the super rich; that the rich are getting richer and the poor are getting poorer; that there is a level of wealth that goes far beyond what anyone possibly needs; and that the real problem with our economic system is neither our debt nor our deficits, but the fact that it does not provide enough support for the poor. It also maintains that our economic policy should be consistent with our democratic social contract; that greater equality is a benefit in-and-of-itself in a democracy; and that investments in fairness are fundamentally investments in our nation's future. Finally, this possibility maintains that instead of cutting back on entitlements and social programs to pay down our debt, we should focus our efforts upon building a better welfare state to provide for the basic nutrition, housing, health care, and retirement needs of its citizens. It would thus resist the call to cut spending, and instead focus upon fairness, and upon raising more money to keep the American dream alive.

**The kind of fairness** that this possibility envisions is conceptually different from entitlements, job programs, social safety nets, and the like. These are stopgap measures designed to placate people who fall short of the American Dream. This possibility would instead spread the ownership of our society's assets throughout the society. It would regard them as the birthright of every American, and every American's fair share of the New American Dream.



**Other Perspectives.** But even if you agree that we should focus on fairness, you may think that this possibility is not the right way to go. You may feel that it would undermine everything that made America great, such as entrepreneurial spirit, the profit incentive, and rewards for real achievement. You may think that taxing the rich will not really work, and that many people think that the rich are paying more than their fair share in taxes already. You may think that it assumes that we are always dividing a fixed pie instead of trying to enlarge it. You may feel that government spending is the real source of unfairness, crony capitalism, job favoritism, and the entitlement mentality—and that focusing upon fairness will not help unless we can all agree about what is and is not fair in the first place. Or you may feel that inequality of *consumption* should not be a concern because our standards of living are becoming increasingly equal—and are always rising. But if you think any or all of these things, then you might also think that an equal distribution of wealth and a fair distribution of wealth are different things—and that we should let markets work to increase our opportunities when we focus on fairness.

**Possible Implementations**

*We could—*

- Enhance the social safety net; treat it as social insurance; and eliminate discretionary political decisions regarding unemployment insurance
- Create a universal housing insurance program for homeowners
- Reform the tax system by raising tax rates of the wealthy and increasing the inheritance tax
- Adopt a single payment system for health care, and extend entitlement programs to cover long-term care
- Increase poor Americans' access to credit and impose a cap on interest rates to prevent usury
- Expand means testing for access to entitlements and credit, including social security, Medicare, and the giving and forgiving of student loans
- Restrict imports to protect exports and jobs in certain geographical areas
- Encourage federalism by repealing states' balanced budget laws
- Impose a sales tax on financial transactions involving stock, bond, and derivative trades
- Cap compensation in the financial sector

**Possible Effects of These Actions**

*These actions could—*

- Provide a better cushion against cyclical fluctuations; reform the system to reflect our basic values; improve its fairness; increase the deficit
- Protect people from foreclosures during economic downturns
- Increase taxes on the wealthy; enhance the fairness of the tax structure; help reduce the deficit
- Provide health care to all Americans; reduce the quality of health care for most Americans; reduce innovation in health care
- Increase access to credit among the poor; protect borrowers from abusive interest rates
- Reserve benefits for the people who need them; clarify that social security is a tax program and not an insurance program; increase educational opportunities; help students stay free of debt
- Preserve jobs in the short-term; lead to trade retaliations in the long-term
- Relieve pressure on states to cut programs during recessions
- Reduce liquidity, asset values, and efficiency of the market; raise little revenue
- Limit one source of income inequality

**For Further Discussion...**

- How much sacrifice do you think we should be willing to accept to reduce the long-term national debt? Who do think should bear the sacrifice? How much, and what, do you think *you* should sacrifice?
- Do you think that some individuals, through either their effort or talent or discipline, make a greater contribution to the economy than others? If so, do you think that it is fair or unfair to provide incentives for our most productive citizens to maximize their contributions—and why?
- Do you think that an increase in economic growth necessarily means an increase in living standards and the quality of life? If so, why so? And if not, why not?
- Do you think that concentration in the financial sector is more the result of market forces or government policies—and why?
- Do you think that the primary goal of redistribution of wealth is to improve our standards of living and material well-being, or to reduce the resentment that the poor might feel toward the rich in our society? And if you think that the real goal of redistribution of wealth is to improve our standards of living and material well-being, how well do you think it works?

# LET MARKETS WORK

*This possibility would minimize government regulation and subsidies of money, credit, and debt in an effort to maintain free financial markets and reduce the possibilities for moral hazard in the financial system.*

**Do you believe** that government interventions in the financial markets are often covert attempts to attain certain social and political policy goals? Do you worry that they can introduce price distortions and moral hazards that both threaten the integrity of the system and make it impossible for it to function properly? And do you think that we would all be much better off if governments were to let markets work?

**This possibility** flows from a belief that financial markets always work best when they are free of the price distortions and moral hazard—or the temptation to think that government will always bail us out if and when we get into trouble—that typically accompany governmental intervention. It also flows from a concern that governmental attempts to protect consumers can undermine the integrity of financial markets, if not the entire free enterprise system, and make it impossible for them to work properly. This possibility thus maintains that we have not yet done enough to deregulate financial markets. Today there are very few industries that are more heavily regulated than finance. And the effect is that we have given risk takers guarantees that insulate them from the consequences of their actions instead of forcing them to do due diligence before acting. Where market self-regulation would properly align financial incentives, government regulation is too often a political tool for extending benefits to certain groups without raising the money to pay for them. It thus distorts financial incentives to achieve certain social goals by putting pressure on financial institutions to extend credit to people and institutions that cannot afford to pay for it. Indeed, this possibility holds that governments need to regulate financial markets only because they have already decided to bail someone out if they fail. But it would reduce this moral hazard by reversing the policy to bail out financial institutions it deems ‘too big to fail’, and by letting the market do its work.

**Government regulation** of our financial markets saps the strength of our economy, limits its ability to create new jobs, destroys our citizens’ sense of self-reliance, and leaves them dependent upon public support to meet their basic needs. The government, according to this possibility, should thus do less to protect us from fraud and manipulation, or to avoid booms and busts, or to subsidize certain sectors of the economy—such as business, agriculture, health care, housing, and community development—because government regulation almost always makes matters worse. This possibility would instead restore market discipline to financial institutions, with minimal government regulation, in an effort to increase competition, improve consumer choice, and eliminate the phenomenon of privatized gains and socialized losses.



**Other Perspectives.** But even if you want to let markets work, you may feel that we shouldn’t assume that they actually do. You may think that they are never a cure-all, that they rarely work as idealized, that they are rife with fraud and corruption, and that we should protect our citizens against their worst failures. And you may think that the real problem with regulation is that it is fragmented and incoherent, more expensive and less effective than it should be, and too easily manipulated by the very institutions it regulates. If you share any or all of these beliefs, then you may also think that we should try to regulate the markets more effectively, shrink the financial sector, and reform it too.

**Possible Implementations***We could—*

- Restrict the government's and the Federal Reserve's ability to bail out firms, and force 'too big to fail' firms to internalize their costs
- Eliminate or scale back government housing subsidies, including Federal Housing Administration (FHA) loans, support for Fannie Mae and Freddie Mac, the mortgage interest deduction, and government subsidies for owner-occupied housing
- Scale back federal deposit insurance (FDIC)
- Encourage openness and transparency in the financial markets by reducing restrictions on short selling and requiring financial institutions to post their net positions
- Repeal the Dodd-Frank Wall Street Reform and Consumer Protection Act
- Decrease capital requirements for banks
- Eliminate the ability of states to allow 'non-recourse' mortgages
- Sponsor unbiased research on the real benefits or detriments of home ownership for low income people
- Encourage new entries for institutions in the financial markets
- Sponsor unbiased comprehensive public research in the financial sector: a census of financial data

**Possible Effects of These Actions***These actions could—*

- Eliminate the 'moral hazard' temptation for government bailouts and asset guarantees; reduce social risk; lead to more bank runs
- Remove a major source of price distortions in the mortgage market; eliminate a major source of moral hazard; reduce leverage, risk, and investment in the housing sector; increase private bank lending; increase mortgage interest rates
- Increase market discipline on households
- Make markets more efficient; increase the reliability of price signals; reduce risk taking by financial institutions; expose normal investors to greater loss
- Result in more bank lending; result in more bank failures
- Free up funds for lending
- Give homeowners with underwater mortgages disincentives to hand over their keys
- Clarify whether subsidizing home ownership for low income people is good policy; increase labor mobility
- Increase the supply of credit in the system and the number of creditors and lenders
- Help us identify areas that are being neglected; help gather the data necessary to let markets work

**For Further Discussion...**

- Do you think we can really restrict governments from bailing out failing financial institutions? If so, why so? If not, why not?
- Do you think that our efforts to encourage home ownership instead of renting among lower income people have been worth the costs in corruption and wasted funds in the public and private sectors? If so, why so? If not, why not? And if not, what costs in corruption and wasted funds would you regard as acceptable?
- Do you think it is really possible to identify market failures or the potential for market failures in real time? If so, why so? If not, why not? And if so, how?
- Do you think that consumers and investors should have to face more risk in connection with their financial decisions? If so, why so? If not, why not? And if not, do you think that they should have to face risk at all?
- Do you think that ordinary people who do not have advanced degrees in economics and finance can really be trusted with the consequences of their own economic freedom? If so, why so? If not, why not?



## SHRINK THE FINANCIAL SECTOR (AND REFORM IT TOO!)

*This possibility would limit the size of financial institutions to ensure that none of them are 'too big to fail' or exert too great an influence upon our lives. It would also try to shrink the size and influence of the financial sector as a whole, and to reform it, so as to limit the detrimental effects that it has upon our society and our way of life.*

**Do you believe** that financial institutions have come to play too great a role in our lives? Do you think that banking is an inherently unstable business and that a healthy economy does not require such a huge financial sector? And do you worry that the very idea that some financial institutions are 'too big to fail' introduces a moral hazard into the financial system that undermines its integrity and soundness?

**This possibility** flows from a belief that we have become too dependent upon finance—and that the larger and more powerful our financial institutions become the more likely they are to serve their own interests instead of the interests of our society. It also flows from a concern that our financial sector has become too large and too interconnected, that too many of our best students are now going into finance instead of professions that foster the real economy, and that finance and the financial sector now exert too great an influence upon our society, our political system, and our public policy decisions. Today, many people feel that Wall Street is more about speculation than the creation of real wealth—and that the idea that some banks are 'too big to fail' has both compromised the discipline that capitalism is supposed to exert over financial system, and transformed it into one of private profit and socialized loss. At the same time, many people are going deeper and deeper into debt as their political leaders encourage them to spend more and more in order to keep the economy going. This possibility would address these concerns by ensuring that no financial institution becomes so big that its failure would endanger our financial system or our economy as a whole; by shrinking the finance sector to limit its influence upon our society and public policy decisions; and by reforming it so that it better serve the interests of our society.

**Far from repudiating** free market principles, reforming our financial system would be a first step toward ensuring that our financial markets are actually governed by them. And far from denying the importance that finance has in enabling us to achieve our personal and public goals, limiting the size and influence of the financial sector would help to balance financial and economic considerations with other social concerns in making spending choices that affect our personal and public lives.



**Other Perspectives.** But even if you agree that we should guard against moral hazard by preventing any bank or financial institution from becoming 'too big to fail', you may feel that shrinking the financial sector is not the way to go. You may think that the distinction between finance and the real economy is a false dichotomy, that finance has now evolved into one of our most innovative and profitable industries, and that the fact that more and more of our best students are going into it only means that they know where their best opportunities lie in the future. Or you may think that we really need a more dominant financial sector, with larger financial institutions, so that we can successfully compete with the financial institutions of other countries. But if you are inclined to think any or all of these things, then you may also think that instead of shrinking the financial sector, or trying to reform it, government should focus its attention upon preserving the value of money, and reform its own tendency to inflate it.



**Possible Implementations***We could—*

- Impose strict standards of professional accountability for financially important decisions that extend liability
- Link compensation in the financial sector to long-term performance
- Reduce tax subsidies for financing corporate debt
- Reduce the government deficit and all government subsidies to the housing market
- Reinstatement a modified version of the Glass-Steagall Banking Act of 1933 to separate commercial and investment banking
- Ban proprietary trading and restrict the profits of financial institutions to commissions
- Impose a tax on financial transactions
- Eliminate the deductibility of investment, mortgage, trade, and business interest
- Tax capital gains income at the same rate as ordinary income
- Increase capital requirements of large banks and put a hard cap on any bank's share of the deposit insurance fund

**Possible Effects of These Actions***These actions could—*

- Force financial institutions to take responsibility for their decisions; lead to financial institutions making fewer risky decisions
- Introduce more caution in making financial decisions; eliminate fraudulent activity
- Lead to less debt and greater insulation of the real economy from the financial sector
- Shrink the financial sector nationally when its biggest customer reduces its activity
- Lead to less risky behavior by systemically significant bankers; reduce the possibility of financial institutions becoming 'too big to fail'
- Reduce risky behavior in the financial sector; eliminate fraudulent activity
- Reduce number of financial transactions
- Reduce the number of loans and the number of unproductive transactions
- Raise interest rates; diminish the United States' lead in international finance
- Limit the size and number of large financial institutions, and the risk to the insurance fund from the failure of any one bank

**For Further Discussion...**

- How important do you think the financial sector and financial innovation are to economic growth? And what other sectors, if any, do you think are more important?
- Do you think that allowing non-bank corporations, such as Walmart, to enter the banking industry would make banking more or less stable? And why?
- Do you think that the present size of the US financial sector is optimal for the overall health of our society? If so, why so? If not, why not? And if not, what would be an optimal size?
- Do you think that our society's general identification of success with wealth, prosperity, and financial success is healthy? If so, why so? And if not, why not?
- Have you or your family benefited, or tried to benefit, from financial innovations involving credit cards, home/car ownership, retirement savings, or financing higher education? If so, why so? If not, why not? And if so, do you regard your attempts as successful?

## STOP THE PRESSES, AND PRESERVE THE VALUE OF MONEY

*This possibility would place strict limits on the amount of new money that we can create in an effort to preserve the dollar as a stable store of value.*

**Do you believe** that the most important goal of monetary policy is to preserve the value of our money? Do you think that inflationary policies inevitably undermine this goal, even when they are adopted with the hope of achieving social policy goals such as low levels of unemployment, and even when their rates of inflation are very small? And do you worry that these policies may eventually erode our citizens' trust in the dollar, and indeed, their trust in our economic system as a whole?

**This possibility** flows from the beliefs that our money should first and foremost be a stable store of value; that maintaining a stable dollar and achieving other social ends—such as low rates of unemployment and the elimination of poverty—may ultimately be at odds with each other; and that using monetary policy as a means to achieve such ends in the short term is an impossible task. It also flows from a concern that inflation has eroded the value of our money over the years, and the trust that people have in our financial system along with it. Many people do not understand how much inflation has reduced the value of the dollar over the years. But the purchasing power of today's dollar is only five percent of the purchasing power of the dollar a century ago. Inflation thus hurts savers by reducing the real value, or purchasing power, of the money they have saved, and helps borrowers by reducing the real value of the money they have to pay back. It also puts a heavy tax on businesses, especially during periods of high or unpredictable inflation. And the mere perception of inflation creates expectations that ripple through the economy and make it more difficult to control. Even moderate inflation reduces the real value of the debt that borrowers owe, thus making it more attractive to borrow than to save. Governments, of course, are borrowers on a massive scale—which may be the reason they have pursued a policy of steady inflation over the years.

**Instead of printing new money** to stimulate the economy, or to create more jobs, or to encourage people to borrow more money, or to pay back our debt with cheaper dollars, this possibility maintains that inflating the currency to achieve short term social goals is both counter-productive for preserving a stable dollar and unsustainable in the long run—and that preserving the value of the dollar should be the primary goal of our monetary policy.



**Other Perspectives.** But even if you agree that we should guard against high rates of inflation, you may feel some inflation may actually help us. You may think that inflation *does* allow people to pay back their debts with cheaper dollars, and that this *does* encourage them to borrow, which in turn, stimulates the economy and creates jobs. You may think that a low rate of unemployment has obvious benefits for any society; that the dual mandate we have given to the governors of our monetary system—to promote both stable prices and maximum employment—has actually served our country well; and that the steady but low rates of inflation that they have used to achieve this mandate are easy to plan for and not so debilitating to our economy. Or you may simply think that the time has come to print more money to help us pay down our national debt. But if you think any or all of these things, then you may also think that the goal of preserving the value of the dollar is but one social goal among many, and that it should thus be balanced against, instead of elevated above, other social goals that might conflict with it.

## Possible Implementations

*We could—*

- End the Federal Reserve System and allow private banks and financial institutions to issue their own currencies
- Eliminate legal tender laws that force people to accept federal reserve notes as payment for all debts and services
- Require the Federal Reserve to estimate and publicize a projected target rate of inflation
- Return to the Gold Standard or something like it by tying the value of money to gold or some other value commodity that is outside the control of government and the Federal Reserve
- Hold the Federal Reserve responsible for stabilizing the currency and controlling asset markets, but eliminate its mandate to adopt policies that aim at low unemployment
- Eliminate the Federal Reserve's responsibility for bank regulation
- Index more government debt to future inflation rates
- Enhance the federal government's fiscal stabilizers, allowing it to automatically spend more or less in response to business cycle fluctuations
- Prohibit the Federal Reserve from purchasing government debt and force the government to sell its debt on the private market
- Pass a balanced budget amendment to the US Constitution

## Possible Effects of These Actions

*These actions could—*

- Reduce inflationary distortions; reduce the ability to deficit finance; reduce the size of government; privatize the monetary system
- Put pressure on the federal government to stabilize the value of its currency so it can compete with other currencies
- Increase transparency and accountability of the Federal Reserve; increase certainty of consumers
- Put the economy on a solid footing to facilitate long-term growth with stability; make the value of money vulnerable to fluctuations in the commodity market; make us less competitive internationally
- Reduce the Federal Reserve's incentives to inflate the currency to achieve lower levels of unemployment; reduce inflation; stabilize the currency
- Reduce the Federal Reserve's feeling that it is responsible to bail out the banks they supervise
- Reduce government's incentive to inflate the currency to pay back its debt
- Take pressure off the Federal Reserve to respond to such fluctuations through the monetary mechanism in the short-term; reduce the tension between its two mandates
- Prevent the Fed from printing money and increasing the money supply; stabilize or even raise the value of the dollar; discourage debt
- Reduce the pressure upon government to inflate the currency

## For Further Discussion...

- Do you think that our economy and our democracy can survive without the inflation necessary to promote the appearance of constant economic growth? If so, why so? If not, why not?
- Do you believe that a modest but stable rate of inflation is beneficial to long-term growth or a threat to financial stability? And why?
- Do you believe that our dissatisfaction with the kind of conditions that might make a lender of last resort necessary should prevent us from designating one? If so, why so? If not, why not?
- Do you think there is really a trade-off between inflation and unemployment? If so, why so? If not, why not?
- Do you think that our society would be better off without money? If so, why so? If not, why not?

## STAND STRONG

*This possibility would defend the use of the dollar as the world's primary reserve currency, and it would maintain a strong dollar in an effort to expand both international trade and the international demand for dollars to support it.*

**Do you believe** that a strong country and a strong currency are often one and the same thing? Do you feel that the world's use of our dollar as its primary reserve currency—the fact that foreign businesses, banks, corporations, and governments use our dollar to make international transactions—is a cause and effect of our economic strength? And do you think that it is a privilege that we should try to retain?

**This possibility** flows from the belief that the use of our dollar by other countries to pay their international debts is a tremendous asset for us that is due primarily to the strength and stability of our dollar. But it also flows from a concern that there are strong temptations for us to weaken the dollar, which could result in other countries using other currencies to pay their international debts. The dollar has long been the world's primary reserve currency because we have long been its greatest economy, with its largest and most liquid markets, and its most stable and secure currency. International investors have thus long regarded our dollar as a safe haven. This makes it desirable to conduct international transactions in dollars. It means that we can buy their goods and services with our own money, thereby avoiding the cost of exchanging it. But it also makes our dollar a real commodity that foreigners need. This means that we can export our dollars—which we can print at will—in the way that other countries export oil. And it means that foreigners are willing to lend money to us at lower interest rates because they need our dollars to conduct international trade. Our economy, however, is no longer as dominant as it once was; our dollar is no longer as stable; and some rising countries now want to use their own currencies to settle their international debts. A weak dollar may be good for our other exports. But the loss of the dollar's status as the world reserve currency would probably depress our living standards and weaken our influence around the world. And this possibility would try to prevent it from happening.

**Instead of trying** to maintain an overvalued dollar, or the mere perception of a strong and stable dollar, this possibility would bolster its real strength and stability. This will force us to put our fiscal house in order, and doing so will force us to make real sacrifices. But the advantages of being the world's primary reserve currency are worth approximately one percent of our GDP each year. And this possibility maintains that those sacrifices will ultimately help to ensure our long-term economic health.



**Other Perspectives.** But even if you agree that the world's use of the dollar to make international transactions is a tremendous asset, you may also think that it has some undesirable consequences. You may think that our need to supply the world with dollars has led us to live beyond our means; that it enables us to borrow and spend more than we save and produce; that it puts no discipline on Congressional spending; and that it has transformed us into the world's greatest debtor nation. You may also think that it has led to global economic instability and 'boom/bust' financial crises. And you may think that it has fueled our preoccupation with finance, that there is something fake about it, and that we need to produce and export something real to have a healthy economy. All of this may lead you to think that the decline of the dollar as the world reserve currency is not a bad thing, since it may reduce our indebtedness and rectify global injustices. Or you may simply think that we ultimately will not have a choice. But if you think any or all of these things, then you may think that it is better to get out in front, to facilitate the change instead of resisting it, and to manage the decline.

**Possible Implementations***We could—*

- Commit ourselves to maintaining low rates of inflation
- Return to the gold standard, or adopt some other commodity-backed currency system, for international exchange
- Encourage other countries to peg their currencies to the dollar
- Restore our fiscal balance through a combination of tax increases, spending cuts, and cuts in government programs and services
- Relax the regulatory burden on businesses and make it easier for new businesses to enter the market
- Reduce our corporate tax rates
- Require the Federal Reserve to make the decision making process for our monetary policy more transparent
- Maintain a strong military and a strong industrial defense base, and remind the world that no currency is a 'safe haven' without it
- Energetically try to attract foreign direct investment and exempt more of it from the Treasury review process
- Have government intervene to prop up the value of the dollar

**Possible Effects of These Actions***These actions could—*

- Increase international demand for dollars; Reduce interest rates; increase our trade deficit
- Limit the Federal Reserve's ability to print money; help to maintain a strong dollar; attract foreign investors; drain the treasury
- Increase international demand for dollars and dollar denominated financial assets
- Help us get control over our national debt; make our debt and other investment vehicles more attractive to foreign investors
- Improve the business environment in the United States; boost productivity in the United States; attract foreign investors
- Boost productivity; attract foreign investors
- Clarify who is in charge of our monetary policy and what political interests are at stake; give greater certainty to businesses and investors
- Convince other countries that we intend to remain a safe haven for their investments; help to maintain our world dominance in finance
- Encourage more foreign direct investment; make it easier for foreign countries to invest in the United States
- Help to maintain a strong dollar; backfire, if the need to intervene is seen as a sign of weakness

**For Further Discussion...**

- Do you believe that a strong country and a strong currency are one and the same thing? If so, why so? If not, why not? And what else do you think makes for a strong country?
- Do you believe that the United States is an exceptional nation? If so, why so? If not, why not? And if so, what, if anything, do you think the exceptional character of the United States has to do with the maintenance of a strong currency?
- To what extent and in what ways do you think Americans benefit from other countries' use of the US dollar as a world reserve currency to settle their international debts? And why?
- Do you think that it is possible to reconcile our desire to keep the dollar strong with our desire to increase exports? If so, why so? If not, why not? And if so, how do you think it is possible to reconcile them?
- What does a weak or strong dollar mean to you personally and to your family? What effects, if any, do you think a decline in the value of the dollar or its use by other countries to settle their international debts would have upon you and your family? And why?



## MANAGE THE DECLINE

*This possibility would manage the decline in the expectations that Americans have of their economic and political systems by taking steps to acclimate them to the economic rise of other countries and our increasingly weaker position in relation to them.*

**Do you feel** that America has seen its best years and that the future will see a slow but inevitable decline in our superiority over other countries? Do you worry that unsustainable levels of public and private debt may usher in a new era of austerity, with slow economic growth, more expensive credit, and sharp cutbacks to the social services and entitlements that Americans have come to expect? And do you think that the best thing we can do under the circumstances is to manage the decline?

**This possibility** flows from the belief that our economic superiority over other countries is in a state of decline, and from a concern that Americans will have trouble readjusting their expectations to the loss of power, influence, and material benefits that may follow from it. It maintains that our decline in economic superiority is due primarily to the economic rise of other countries, rather than to a real decline in our own economy. But it also maintains that the trend is irreversible; that it will inevitably lead to a similar decline in our geo-political power and ability to influence world events; and that it may also lead to a decline in social programs, entitlements, and public services at home, especially if we cannot reduce our national debt. This possibility would thus try to help Americans form more realistic expectations about their future. It would stress that our past superiority over other countries was due to the fact that we emerged from World War II in a relatively unscathed position, rather than to the intrinsic superiority of our economic and political systems. But it would also attribute the economic rise of other countries to their adoption of those very systems. It would focus attention upon the benefits that their rise may have for us. And it would try to help us adjust to a future in which America will have fewer jobs, lower standards of living, greater trade imbalances, and an inability to attract the best and the brightest young minds and talent to our shores.

**Americans** have long been inspired by the idea that the United States is an exceptional country and that there is no limit aside from our imagination to what we can achieve. This idea has fueled the American dream of continual progress and our idea that each new generation will be better off than their parents. But in order to manage the decline, we will have to adjust ourselves to the idea that we are now living in a world of limits. And we will have to acknowledge that we are now just like everyone else—and that to the extent to which we are still exceptional, it is only because we have borrowed, and now owe, more money than anyone else.



**Other Perspectives.** But even if you agree that America's economic superiority over other countries is currently in a state of decline, you may not think that trying to manage the decline is the best way to respond to it. You may think that the future is not determined and that we should not regard the decline of our economic superiority as inevitable and irreversible. Or you may think that the economy is essentially a competitive process, and that adopting a defeatist attitude toward it is only likely to make it a self-fulfilling prophecy. Or you may think that even the *relative* decline of our economy has been greatly exaggerated, that we are still the most powerful country on Earth, and that our best years are still yet to come. But if you think any or all of these things, then you may also think that, instead of trying to adjust our future expectations to the decline of our economic superiority and geo-political power, we should roll up our sleeves and think of new ways in which we can compete on the global playing field and win.

### Possible Implementations

*We could—*

- Declare that our ‘era of empire’ is over
- Reevaluate and reform international treaty obligations to gradually reduce the world’s dependence on our military dominance
- Support public broadcasting, cinema and arts that focus on the negative aspects of our supposedly glorious past
- Begin a public relations campaign to encourage greater cooperation with our rivals, enemies, and up-and-coming superpowers, such as China, and claim that we have a ‘special relationship’ with them
- Seek greater cooperation with major international rivals, such as China, and adopt a more humble approach to negotiations with them
- Review the safety-net system and make sure that it is adequate
- Resist the temptation to think that the decline is temporary and to increase social benefits
- Continue to invest in a strong military and defense capability to assure continued national political independence
- Deal seriously with citizen complaints about unfair global competition and outsourcing of jobs
- Increase study-abroad programs and encourage students to examine alternative governing systems

### Possible Effects of These Actions

*These actions could—*

- Lower expectations about our power
- Gradually reduce the world’s dependence on our military; force other countries to budget more for their own defense
- Mollify the public, who will feel embarrassed by our past and will not feel that anything valuable has been lost
- Delegitimize scaremongers who use our enemies and rivals as a bogeyman to prevent us from making hard choices, and make us appear as if we are stronger than we really are in the eyes of our citizens
- Improve foreign relations with our international rivals; prepare for a time when we have to adopt such an approach
- Ensure that the decline is not too severe for the poor, the ill, the aged, children etc.
- Set a fiscal path that assures the avoidance of future problems
- Provide psychological comfort to Americans: we’re not doing as well economically, but we can still dominate them militarily
- Satisfy domestic demands that the government is acting on behalf of its citizens to help to reverse the decline
- Develop a larger cadre of students with experience abroad; lead to greater international coordination

### For Further Discussion...

- Do you believe that this possibility could create a real and persistent national security risk?
- Do you believe that an economic decline that is relative and not absolute will require significant material adjustments on the part of most people? If so, why so? If not, why not? And if not, what are we worried about it?
- Do you believe that it is important for America to be #1? And if so, exactly what is so important about it?
- Do you think that most Americans can psychologically handle being #2 or #3? And if not, what difficulties might they encounter?
- Do you think that greater participatory democracy would help or hinder governmental efforts to manage the decline? And why?

## DEFAULT—AND WORK IT OUT

*This possibility would accept the fact that we will not be able to reduce our national debt to a sustainable level, and that the best option that we have is to default on it openly, instead of by stealth, and restructure the spending obligations that have produced it.*

**Do you believe** that our national debt is simply too great for us to ever make it sustainable? Do you worry that borrowing even more to pay it back will only postpone our day of reckoning? And do you think that while the consequences of a default may be catastrophic, *not* defaulting on it might actually be even worse?

**This possibility** flows from a belief that our national debt is out of control, that we can no longer make it sustainable without crippling future generations of Americans, and that we will sooner or later have to default on it in one way or another. It also flows from a concern that attempts to avoid a default by taking on more debt, no matter how well intentioned, will only make matters worse. To default means to fail to meet a contractual obligation, in this case the obligation to repay a debt, and there are many ways in which we can do it. The point of claiming bankruptcy is to default on all or part of one's debts, and default is often discussed as a strategy for eliminating private debt. Our federal government, unlike other borrowers, can always avoid an *explicit* default because it has the power to print as much money as it sees fit. But this possibility maintains that inflating our money supply by printing more dollars is a 'slow default', that it debases our currency and enables us to avoid our contractual obligations by repaying our debt with dollars that are worth less than the ones we borrowed, but that it does so only by lowering the value of every dollar that we print. It recognizes that the very threat of inflation can force our creditors to the negotiating table, but it is wary about the long-term consequences of debasing our money. It recognizes that defaulting may make it more difficult to borrow in the future. But it maintains that we have for too long borrowed money to pay for things we cannot afford; that it is better to explicitly default and to reprofile, reschedule, and restructure our debt; and that the fact that an explicit default would make it more difficult for us to borrow is actually a reason for doing it.

**Some people** may be tempted by the short-term benefits of printing more money and paying down the debt with inflated dollars. But inflation is only a recipe for even deeper and deeper debt. It has thus facilitated our descent into both public and private debt by enabling governments to buy things they can't afford, and by encouraging individual citizens to borrow more money with the idea that they can return it with cheaper dollars. And this possibility maintains that we should resist the temptation of a 'slow default' because the costs of an explicit default are actually less in the long term than those of inflating and debasing our currency.



PHOTO: DIGITAL VISION/THINKSTOCK

**Other Perspectives.** But even if you agree that we will never be able to reduce our national debt to a sustainable level, you may think that an explicit default is not the way to go. You may worry that an explicit default could have disastrous effects upon our economy, the global economy, and our standing in the world. You may think that it is silly to think that we will never need to borrow again, and that it makes no sense to make it more difficult for us to do it. Or you may feel that defaulting on the debt would be even less responsible, and more risky, than inflating the money supply to pay back our creditors with cheaper dollars. But if you think any or all of these things, then you may also think that we are caught between a rock and a very hard place.

## Possible Implementations

*We could—*

- Announce a complete default on the national debt and suspend all payments on both interest and principal to domestic and international creditors
- Announce a partial default on the national debt, offering our creditors some percentage on the dollar amounts that we owe them
- Rank our creditors to determine who should be paid first and how much
- Conduct an auction of American properties for highly ranked creditors
- Try to ‘re-profile’ our national debt by exchanging short-term debt for long-term debt
- Try to lower the interest rates on our outstanding treasury bills to reflect our current interest rates
- Restrict the use of repayments by stipulating that they can’t be taken out of the country
- Offer our creditors the option to convert our existing debt into new bonds tied to GDP warrants similar to ‘debt for equity swaps’
- Announce that other countries owe us a ‘debt of gratitude’ for the *Pax Americana* and that now is the time for them to pay it by forgiving whatever debt we owe them
- Keep borrowing and spending, exactly as we are doing

## Possible Effects of These Actions

*These actions could—*

- Eliminate our national debt; provoke an international financial crisis; saddle our creditors with losses; bankrupt financial institutions; reduce the value of savings, assets, and pensions
- Slow the spiraling growth of our debt; allow us to restructure it; bankrupt some financial institutions, but not as many as a complete default
- Help us determine which creditors we need to pay first
- Help us determine what our creditors will settle for and how much we should offer them
- Reduce debt payments; allow us to pretend that we haven’t defaulted; ruffle fewer feathers
- Reduce our debt payments; allow us to pretend we haven’t defaulted; limit insolvencies among financial institutions; ruffle even fewer feathers
- Reduce our debt burden; reduce our creditors’ choices and their inclination to lend us money
- Restore confidence among creditors by guaranteeing that they will share in the upside of the reforms we make to put our house in order
- Eliminate our debt if it works; start a war if it doesn’t work, in which case we would have political cover to default; earn us the ‘International Height of Creative Chutzpah Award’
- Stimulate Americans’ appetite for Greek food and Ouzo, regardless of whatever else happens

## For Further Discussion...

- Do you agree that inflating the currency to pay the debt with less valuable dollars is a form of default, and that we will inevitably default upon our national debt in one way or another? If so, why so? If not, why not?
- Do you agree that while the consequences of *not* explicitly defaulting on our debt will be painful, on it might actually make matters worse? If so, why so? If not, why not?
- Do you agree that explicitly defaulting on our national debt is a better option than inflating our currency to pay down the debt with less valuable dollars? If so, why so? If not, why not?
- Would explicitly defaulting on our national debt be consistent with your sense of national honor? If so, why so? If not, why not? And if not, would inflating the currency to pay down the debt with less valuable dollars be any more consistent with it? If so, why so? If not, why not?
- Do you think your children and grandchildren will be materially worse off than you are, given our innovations and advances in science, technology, medicine, etc., if we default? If so, why so? If not, why not?



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# ON CONTRASTS AND CHOICES

## AMONG THE POSSIBILITIES

**There are many contrasts** among our nine conceptual possibilities and many choices that you would have to make to adopt any of them. Some of these contrasts and choices relate to the concerns, beliefs, values, interests, and goals that might motivate people in constructing public policy pertaining toward money, credit, and debt. Others concern the role that government could, or should, play in regulating the monetary system. Still others concern the effects that money, credit, and debt have had upon individuals, our nation, and society at large. And still others concern the effects that they might have in the future. We will not attempt to describe all of these contrasts and choices in what follows. But a few examples of the more salient ones might help you to recognize others, and to better understand the possibilities that we have described and the need to choose among them.

**Thus, Put the Public Good First** and **Focus on Fairness** give different answers to the question ‘*Should we make cutbacks to social programs and public services in order to pay down our national debt?*’ **Put the Public Good First** says that our country’s financial solvency is *the* primary public good and it would put it above any and all special interests. It would thus take whatever steps are necessary to pay down our national debt in order to ensure our solvency—even if it means drastic cutbacks to social programs, entitlements, and public services. **Focus on Fairness**, on the other hand, says that fairness is or ought to be as important to us as our economic health. It would thus try to ensure fair and equitable treatment of the poor and underprivileged members of our society as we try to regain control over our national debt. And it would not cut back on the social programs, entitlements, and public services that they need—even if it means borrowing more to pay for them. You may have different ideas about the primary public good, or about what ‘fair and equitable treatment’ really means. But it difficult to see how we could consistently adopt both of these possibilities at once. We must, instead, choose between them.

**In a similar way**, **Let Markets Work** and **Shrink the Financial Sector (and Reform it Too)** give very different answers to the question whether and to what extent government should intervene in or try to regulate financial markets. **Let Markets Work** maintains that government interventions in financial markets introduce price distortions and moral hazards that threaten the integrity of the system, that they are often covert attempts to attain social and political policy goals, and that they make it impossible for markets to function properly. It would thus minimize government regulation and subsidies of money, credit, and debt in an effort to both maintain well functioning markets and reduce the possibilities for moral hazard in the financial system. **Shrink the Financial Sector (and Reform it Too)** is also motivated by concerns about moral hazards in the markets. But it maintains that our financial institutions, and the financial sector as a whole, have become too large; that they exert too great an influence upon our society, our political system, and our public policy decisions; and that the larger and more powerful they become the more likely they are to serve their own interests instead of the interests of our society. It would thus regulate the size of financial institutions to ensure that no institution is ‘too big to fail’ or exerts too great an influence upon our lives. It would also shrink the size and influence of the financial sector as a whole, and reform it, to limit the detrimental effects that it has upon our society and way of life. You may agree with both of these possibilities about the causes and dangers of moral hazard. But it is difficult to see how we can consistently adopt both of them at once. We must, once again, choose between them.

**Some of the conceptual possibilities** move in the same general direction, but address different concerns at different levels and for different reasons. Our panelists thought that they should be included in this report because the concerns that they address merit their own separate discussions.

**Thus, Put the Public Good First** and **Cut the Card** both focus upon regaining control over our spending habits and debt. But **Put the Public Good First** would focus on our national debt, and **Cut the Card** would focus upon our private debt. While **Put the Public Good First** would take whatever steps are necessary to pay down our national debt and ensure our financial solvency, **Cut the Card** would promote the values and habits of personal responsibility, self-control, saving for the future, and living within our means in an effort to reduce consumerism, frivolous consumption, and personal debt. You can clearly adopt both of them at once. But you can just as clearly adopt one and not the other.

**Stand Strong** and **Stop the Presses, and Preserve the Value of Money**, on the other hand, would both address unhealthy effects of inflation. But while the one would address the detrimental effects that inflation has upon the value of the dollar, the other would address the detrimental effects that it might have upon benefits that accrue to our economy due to the international use of the dollar as the world's primary reserve currency. **Stop the Presses, and Preserve the Value of Money** would thus place limits on the amount of new money we can create in an effort to preserve the dollar as a stable store of value. But **Stand Strong** would maintain a strong dollar to encourage other countries to use it to settle their international debts.

**Our nine conceptual possibilities**, taken together as a whole, reflect a mixed, but generally sobering outlook toward money, credit, and debt. Our panelists repeatedly said that the American economy has real fundamental strengths, that its alleged decline is due more to the rise of other countries than anything else, and that the future may well be brighter than most people may think. But they also repeatedly said that our national debt and deficit spending is out of control; that we may not be as economically and politically powerful in the future as we have been in the past; that we will ultimately have to default on our national debt in one way or another; and that Americans may have problems adjusting to their new reality.

**Manage the Decline** would thus acclimate Americans to the economic rise of other countries and our increasingly weaker position in relation to them. **Default, and Work It Out**, on the other hand, would accept the 'fact' that we will not be able to reduce our national debt to a sustainable level, and says that the best option that we have is to default on it openly, instead of by stealth, and restructure the spending obligations that have produced it.

**We should point out** that each of our possibilities actually presents at least *three* different choices pertaining to public policy. For you might choose to accept it *or* to reject it—*or* to modify it to make it more acceptable. We have, for this reason, included a section called 'Other Perspectives' in the description of each conceptual possibility that cites reasons why you or other people might oppose it, and suggests other possibilities that you might think are better suited to your governance concerns if you do.

**Our panels** explored a number of possibilities that are not included in this report, and selected the ones that are included with an eye toward which would be most useful for public discussion. They thus discussed possibilities that they called 'Educate America', 'Teach Americans about Economics and Finance', and 'Create a True Marketplace of Ideas' throughout the project, but ultimately chose not to include them in the report. They had designed these possibilities to address concerns that too many Americans are functionally illiterate about economics and finance, and do not know enough about them to make responsible use of money, credit, and debt, let alone thoughtful policy choices about them. But they ultimately thought that this situation is due more to a lack of learning than a lack of teaching; that trying to teach more about economics and finance in the schools and in the media would not really help; that a discussion of these possibilities would ultimately be more about the failures of our educational system and our news media than about money, credit, and debt; and that it would be better, for these reasons, to list them among the possible implementations of some of the other conceptual possibilities.

**The panels** also discussed possibilities that they called ‘Pay As You Go’, ‘Just Stop Spending’, ‘Go International’, ‘Build a Better Welfare State’, ‘Curb Our Culture of Consumerism’; and ‘Reform the Financial System to Minimize Systemic Risk’ for most of the project, before deciding to combine them in one way or another with other possibilities. They thus chose to combine ‘Just Stop Spending’ with **‘Put the Public Good First’**; ‘Build a Better Welfare State’ with **‘Focus on Fairness’**; and ‘Curb Our Culture of Consumerism’ with ‘Cut the Card’. They also chose to describe the basic idea behind ‘Go International’—that we should try to facilitate the use of different currencies to settle international debts instead of trying to resist it—as an ‘Other Perspective’ to **‘Stand Strong’**.

**Finally**, the panelists generally chose *not* to present possibilities that are polar opposites as separate possibilities, and to instead describe one of them as an ‘Other Perspective’ to the other—partly because they thought that a discussion of either one would naturally engender a discussion of the other, and partly because they thought a smaller number of possibilities would be more useful for public discussion. They also chose to present the possibilities they thought would be most likely to provoke discussion, regardless of whether or not they agreed with them. And they chose to present some of the reasons why someone might oppose each of the possibilities in the report to help those who might feel skeptical about a possibility but have difficulty saying why.

**These are just a few** of the ways in which the possibilities in this report differ from each other. There are also numerous ways in which they overlap. We want to remind you that we have developed them for public discussion, and not because we want to recommend them as public policy. We hope that pointing out some of their more salient differences has assured you that they are not intended as planks in a political platform for public policy regarding money, credit, and debt. We also hope that you will enjoy discussing them with your families and friends—and that thinking about them will enhance your own ideas about them.

## An Open Invitation

### To Further Discussion & Interactivity

We hope that you will use this report to carry forward the discussion begun by our project panels.

We have developed a citizen discussion process that may be useful for groups interested in discussing the ideas presented in our reports or in discussing matters of public interest more generally. We have also developed facilitation and discussion guidebooks to assist in the planning and conduct of these discussions. These materials, as well as copies of this and other Interactivity Foundation reports, may be downloaded from our website (listed below). You can obtain additional printed copies of any of our publications (at no cost) by sending us a request that briefly indicates their intended use.

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Finally, we welcome your comments, ideas, and other feedback about this report, its possibilities, any of our publications, or our discussion processes.

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