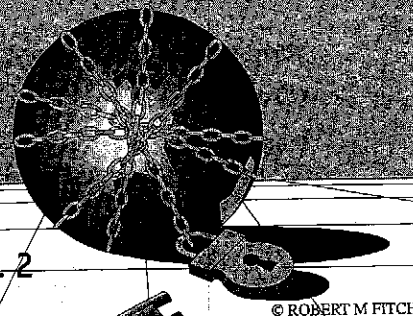


# GROUND SWELL

A BI-MONTHLY PUBLICATION OF  
COMMON GROUND USA



FEBRUARY 2016 / \$3.00

VOLUME 29, No. 2

## AMERICA IS NOT BROKE INTERVIEW WITH SCOTT BAKER

(The following is a transcript of the interview with Scott Baker, New York, NY, about his book, *America Is Not Broke*. It was done Jan, 4, 2015 with Rob Kall, who is Scott Baker's publisher at Opednews. Rob Kall also wrote the Foreword for Scott Baker's book.)

**ROB KALL:** Welcome to Rob Kall Bottom Up Radio Show WNJC 1360 AM out of Washington Township reaching Metro Philly and South Jersey. Sponsored by opednews.com. My guest tonight is Scott Baker. Scott's one of the managing editors and the economics editor for OpEdNews, he's a lecturer at the New York Henry George School, and the New York coordinator for the Public Banking institute. I'm having him on to talk about his new book, *America Is Not Broke— Four Multi-trillion Dollar Paths to a Thriving America*. Welcome to the show, Scott.

**SCOTT BAKER:** Thank you. It's good to be here and it's good to talk about the book.

**RK:** Yeah, so what's the basic concept of the book?

**SB:** Well basically, I'm challenging the notion that America is out of money, that we can't afford social programs, that can't cut taxes on people who need it to be cut such as the middle class. And that we're basically in decline because there's no way we can afford not to be and I'm doing it from a different way, not from the usual way where I just say, you know we should tax the rich more, although we should, but certain kinds of wealth. I'm trying to show that there are four big solutions, four macro-economic solutions that people don't even know about that would put trillions into the economy. So if I can do that, and people understand it at a gut level, then we really have a different conversation.

**RK:** Trillions into the economy. Why isn't this being done if it's available?

**SB:** Well, some people they just don't know and, you know, the people who do know are not wanting to do it because they're basically rentiers, they're seeking rent. And these things would undermine all of that. For example, you know money creation itself is a province of the bank, it's a monopoly of the banks. It could be done by the government itself, it has been done by the government under Lincoln's, President Lincoln's administration. We had something called the Greenbacks or the United States Notes, that was sovereign money that was debt free money. It was produced to pay the civil war costs when the

banks wanted 24-36% interest. And that's something that's allowed under the coinage clause, which is article 1 section 8 clause 5 of the constitution which SCOTUS, the Supreme Court rather, has upheld in *Julliard vs Greenman* as being a way that the United States can produce paper money and that it doesn't have to go to a bank or borrow it or even raise taxes. It has this provision where it can produce money as it needs to. So that's one thing, that's of four solutions. There's other ones, there's land value taxation.

**RK:** Well, wait, why don't you list the four different ones so we have them up front.

**SB:** Alright. So the first one was sovereign money, debt free money. The second one is land value taxation. Which is basically taking the site value of the land which is particularly important in urban areas. And putting it back into the community which created it in the first place because it's the demand that creates the value. It's not anything a developer puts on top of the land.

**SB:** The third one is public banking. And that's been around since 1919 in North Dakota.

**RK:** And the fourth one.

**SB:** The fourth one is government asset hoarding and basically that's accounting for pension funds and the agency funds. They have trillions of dollars that could be reallocated and people don't know it exists.

**RK:** Okay, so now we've got a list. Sovereign money, land value taxation, public banking and government asset hoarding. What do you think would be the easiest one to free up?

**SB:** Well, I didn't play favorites in the book because people have different political persuasions and that's why I came up with four. If people don't like one or two of them there's still two more to choose from.

**RK:** I'm thinking along the lines of reaching for the lowest hanging fruit. You get the first one maybe the second one will be easier. Yeah?

**SB:** Right. I think that the government asset hoarding can work together with public banking so in other words you might take 10% of a pension fund and put it in a public bank, instead of in Wall Street investments. So you'll see there are two of them working together. The land value taxation is pretty much a local issue. So people (continued on page 2)

## AMERICA IS NOT BROKE INTERVIEW

(from page 1)

who are more comfortable working locally can work on that. Debt free money really has to be a sovereign, a national decision. That's a policy at the national level because it's our currency.

**RK:** Okay, so let's start with the government asset hoarding and public banking.

**SB:** Okay. Well I mean basically we have... just to give you an example, we have 160 billion dollars in the pension fund in New York City. And about that much in New York State. Most of it's invested in Wall Street type of funds, you know, mutual funds. And some overseas funds, currencies, overseas currencies, and so forth, the usual kind of stuff that Wall Street deals in. But we could take 10% of that, in theory at least, and put it into a public bank, like the bank of North Dakota which has been around since 1919 and which makes...it backstops all the community banks and helps small businesses and regular people take out loans and invest in their community and build up businesses and so forth. So these two working together would really benefit the community and the bank of North Dakota is not competing with the smaller community banks which is why there's more of those in the state of North Dakota than in any other state. They have an 81% per capita community bank ratio which is far higher than the next state which is about 60%. And if you look at the FDIC studies and some other studies you find that the states with the most community banks actually have the most small businesses, the lowest foreclosure rates, the lowest unemployment rates. So it's all very well documented. I talk about this in some of my slide shows and the book, of course, too. So this is something that we're moving away from because of the failures of all the small banks across the country. We've lost two thousand small community banks since 2008. And now we're down to about 6,000 and it looks like they're going to keep disappearing. A part of that is consolidation, part of it's Dodd-Frank and regulations that really apply more to the big banks, the too-big-to-fail banks than to the small banks, which are struggling to meet those regulations. But the bank of North Dakota, or a model like that, can backstop these small banks when they need to make a larger loan than they have reserves to do. So this is one way that can strengthen the community and put money back in and create jobs and enterprise and so forth.

**RK:** So let me, a little more clarity on government hoarding. You gave an example and then you jumped into how 10% of it could be used to start a bank but what do you mean by government hoarding?

**SB:** Well, to take an example, again New York or California for the TIAA-CREF fund and the big pensions funds in general keep about 96, 95% of the fund and they dole out maybe 4 or 5% a year. Depending on the year. If you take a net of the employee-employer contribution because of course their employees and employers are contributing to the pension fund during the years. Well, so if you take net of that and

then you add to that the amount in the pension fund, they really only give out about 4% a year. So in exchange for that they're saying that we have to keep 96% of the fund invested so that they spin out this relatively small percentage every year. But the problem is, is that, well, first of all it's a *huge* amount of money. You're talking about many billions of dollars for most pension funds, hundreds of billions even. And the second thing is it's not invested in the community so that's money that's not really working anywhere except on Wall Street. And so you have basically a pyramid scheme and when Wall Street gets into trouble and you've got a stock market crash then one of the arguments they use are really almost blackmail, is that if the government doesn't bail them out and doesn't resuscitate the economy then the stocks will stay down and the pension funds will stay down. So basically they're holding the pensioners hostage.

**RK:** But wait, why is that hoarding? I mean they collect money and they save it for their pensioners. Why do you call that hoarding?

**SB:** Well, because the vast majority of it is not benefiting the pensioners. You know what we're saying or what I'm trying to say in the book is that we would provide for the pensioners probably at a fraction of the cost. I mean let's say those funds didn't exist at all. You know then you would have to have a tax to pay the difference between what the employers and employees contribute during the year and what is paid out. So there would be a relatively modest tax in comparison to all the money that's been taken out to build up the pensions in which the auditors are still saying is not enough because the returns are not enough. So they've been promising 8% a year returns and that was not realistic after the 90's. You know they got it for a while but now that's not, that's been shown not to be realistic. So really it's more like 6%. So the point is that, you know they're taking enormous assets and they're not putting it into...the benefit of the people; it's basically invested in stocks and bonds and a lot of times overseas currencies and options even going short, in private public partnerships and various things like that. But they're not really putting the money into the community except for some small token amounts. So it's hoarding a lot of assets, that's why I call it that, in exchange for doling out a very small percentage every year. So if you really work out the math it's an awful lot of money to be keeping aside that is not benefiting the people who it's supposed to be benefiting.

**RK:** Well are there third parties who are benefiting when they shouldn't be?

**SB:** Oh yeah. Well I mean the pension fund; the managers are making hundreds of millions of dollars. The treasurers of course rotate in and out of Wall Street and they make, you know, a lot of money on both sides but especially when they migrate back to Wall Street. And so you know there's a lot of pay to play. We've had a couple of controllers arrested for that. But mostly it just goes on because it's not technically illegal. But, you know, it's not the best bang for the buck... that's the point I'm trying to make in the book. If we had some of that money invested in the  
(continued on page 4)

## AMERICA IS NOT BROKE INTERVIEW (from pg. 2)

community, even if the nominal returns were not as high as some of the stock portfolios the risk would be less. And plus you're investing in the local community so you're getting back jobs and you're getting back small business creation. And you're supporting a network of community banks which frankly do a lot more loaning to that sort of thing than the big, too-big-to-fail banks. They're not really in that business. They're in the business of derivatives and wealth management and various kinds of speculation schemes.

**RK:** Okay, so basically, I mean you talk about hoarding, you're talking about government hoarding of pension funds and I know that with conversations with the public banking people, it's also rainy day funds and other assets that can add up to hundreds of millions, if not billions and billions of dollars.

**SB:** Several billions, and probably trillions, yeah.

**RK:** Well, you are saying trillions if you add them all up—

**SB:** The figure I got was that there's 200,000 of these pension and agency funds accounts. That comes from Walter Burien who's done more on this than anyone else; that's in my book too. So if you add it all up, well, it's a little slippery but it looks like it's tens of trillions. And I found easily half a trillion just in New York State and City, just from the two largest pension funds plus a couple more large funds, agency funds and I wasn't even looking very hard.

**RK:** So where do you come up with 200,000, I mean, you know we've got a couple thousand cities, we've got fifty states, where is this 200,000?

**SB:** Because the agencies, the agencies all have these funds, through firemen funds, police funds, teachers' funds. You know the cities all have funds, then there's the counties and sometimes the cities are part of the counties, sometimes they're separate. You've got you know just different...there's a lot of enterprise agencies that have separate funds, like water and sewage garbage funds; parking garages are actually pretty lucrative. They all have their own agency funds and they have to invest those. So they don't just sit in the back gathering interest, they get invested. And then the proceeds from that help offset the cost, but the question is where are they invested and is the investment while it's invested doing the best thing for the community and is it a wise use of the money to invest it, particularly when it's in risky, in things like stocks and everything that crashes at once. And even though they claim to be diversified, you know all of these things tend to go down together. So when we have a crash it all goes down at the same time whereas a public bank, like the bank of North Dakota, when we had the 2008-09 crash, was thriving and it still was lending to the state, it was still backstopping the state. In fact, North Dakota was the only state with a surplus during that period. So if you

really want to diversify, this is one way to do it. So you know we have to watch the pitfall of just having a lot of funds and calling that diversification when they're basically overlapping in their investments.

**RK:** Okay. So basically, of the four, two of them are interchangeable. You're really saying that the solution for government asset hoarding is to put them on to into public banking.

**SB:** Well, that's one solution. The other one would be citizen's dividend, that's what Walter Burien favors and he claims there's enough in there that you could abolish taxes entirely, which I haven't been able to verify but he envisioned setting up something called a tax retirement fund. Which would basically spin out a citizen's dividend, like the Alaska Oil Fund for example. You know that would do that every year and everybody, every man, woman, and child would get that. And he claims that there's enough in these funds that you could do that and then you know replace the outlay with some modest tax that would actually amount to less than what is being put out in the dividend. But like I say I can't verify those numbers, it would take a team of forensic accountants going through all the CAFRs all over the country, those are the comprehensive annual financial reports, throughout the country.

**RK:** Okay, now and also you said that, you know, New York City and New York State each have about 160 billion, did you say?

**SB:** Yeah, that's right.

**RK:** And you said they could take 10%, why would they just take 10%? Why wouldn't they take more than that?

**SB:** Well, I'm just throwing that out there, but Philadelphia is actually looking into using some of this money to set up a public bank for itself, for its city. And they seem to be settling on 2.5%. So when I did a presentation about two years ago at Philly I suggested 10% out of that city's CAFR, which by the way had 12 billion dollars at that point. And you know now it's down to two and a half and it's a little bit different mix because there's agencies funds and so forth. But you know you ask for ten and you get, maybe, half of that if you're lucky. But I've been told in my meetings with Scott Stringer who's the comptroller, not himself but his staff, who's a comptroller for New York City now, that 10% is too high and we should aim for 5%. So I aim a little high and hope to get something close to that, but you never know.

**RK:** Why is it too high? What would they need to keep (inaudible) Wall Street?

**SB:** Yeah, I mean, because you're asking them to change the way they operate. You know basically of their investments in stocks and bonds and traditional Wall Street Investments and they have to go against the trend and against the kind of entrenched interests. So we're saying, you know, peel off in this case 16 billion dollars out 160 billion dollar fund and put it (continued on page 5)

## AMERICA IS NOT BROKE INTERVIEW (from pg. 4)

into a public bank or something like that. So first of all they have to set up a public bank so that's one big hurdle. And second of all they have to fund it which is the second big hurdle if we're talking about taking some of that money out of pension fund. So you know in politics you don't want to ask so much that people just walk away. So I'm trying to be both optimistic and realistic at the same time and it's just based on my experience with talking to politicians and people who can make this happen, that's at least a reasonable figure to start with.

**RK:** Okay, so now let's talk about public banking. What is a public bank? I've had Ellen Brown on the show before and Mike Krauss; I've had people on before to talk about it but you've got a book out on this. Why don't you give your take on the key explanation of, in a short way and then get into more details. What is a public bank and why is it good?

**SB:** Alright, well I'm going to model it on the bank of North Dakota because that's the best example we have and it's the longest lasting in this country. So that bank started in 1919. It takes all the tax proceeds of the state and first puts them in the bank and then of course as the year goes on it gets doled out to whatever's needed. But in the meantime it can create credit based on what's put in the bank so that it backstops a lot of the community banks. It doesn't make loans itself. In fact, there's no branches, there's just the headquarters. But what happens is a community bank wants to make, let's say, a 5 million dollar loan to start up a business and they decide they can't take all the risk themselves or they don't have the reserves, so they can go to the bank of North Dakota, and say "Well, can you be our partner in this?" And the Bank of North Dakota will also look at the loan and decide if it's appropriate and if they do then they can put in some of the money as credit, and so you know they've had an 18% return on equity for the last ten years or so. It's a 6.9 billion dollar bank. Now that one was funded with a bond issue back in 1919 because basically there was no other money available. And actually there were no other banks in North Dakota at that point and people had to go to Minnesota, but now like I said we have other options. But this is a way of supporting community banks and it's the community banks that support the community because the big banks are too busy doing global investments and other things that are more lucrative and also easier for them to do. They don't really have the structure to do small loans and support small businesses in the same way. So that's why, that's one of the reasons a public bank is very good for the community. And like I said if you look at the FDIC study you find that the states with a lot of community banks are ones with low foreclosure and low unemployment rates.

**RK:** Alright, so let me try to get this straight. A public bank is owned by some government entity. It could be the state, it could be the city.

**SB:** Yeah, it is the government.

**RK:** It could be a county, so a public bank is part of the government but it's a bank.

**SB:** That's what it is, it's a DBA.

**RK:** It's a what?

**SB:** It is a DBA, Doing Business As. So that means the Bank of North Dakota is *doing business as* North Dakota. So any profit it makes, and dividends it makes can be split between running the bank and the state itself. So it's better to get a dividend than the interest because interest, especially in this low interest environment, on an account is almost nothing. It might not even equal inflation. So, the Bank of North Dakota has returned about 300 million dollars over the last ten years to the state. Obviously, if you have a bigger bank you get more dividends but that state has 740,000 people so that's considerable. So that's 300 million dollars, 30 million dollars a year, coming back to the state which they don't have to tax and they don't have to raise in some other way.

**RK:** So I just want to try to get this clear on what it is. It's a bank that's owned by the government. Now one thing that I understand is, just because it's owned by the government, doesn't mean it's run by the government. Can you talk about that?

**SB:** Yeah, it's run by bankers in the same way as any other bank. So the difference is that they have a charter. Well a bank has a charter too but they have a charter that would perhaps prevent let's say securitizing loans and selling them to other parties. The Bank of North Dakota does almost none of that. They do a little bit but it's much smaller percentage. So that way they keep the loans on the books which puts skin in the game and makes them be more responsible when lending out money. So, everything is focused inward into the state or if it's a city, into the city. And not trying to make a big commission on selling loans and then forgetting about them. So this puts, you know, much more responsibility onto the bank itself to have good loans. So there is, at least in North Dakota, which in this case may not be the model that we follow, but there is a higher board consisting of the Agriculture Secretary, the Governor, and the Attorney General. So that there's some oversight that way but it's fairly nominal and the day to day decisions aren't made that way. And so it doesn't become a political kind of instrument. You know it's not an economic development corporation let's say where they just give out money to develop certain projects and then they have to get more money from taxes and so forth. It's a self-sustaining enterprise is what I'm trying to say. Like any bank.

**RK:** But the one criticism that people have is that we don't need more government. You know you've got a whole group of people who are opposed to any government and they see a government bank as being more of the same problem. How would you respond to that? (continued on page 6)

## AMERICA IS NOT BROKE INTERVIEW (from pg. 5)

**SB:** Well, I mean, you have to look around and decide for yourself if the commercial banks have done a good job of running basic lending operation and crediting operations. If you think they've done a good job and you think that the bailouts are fine, which is government anyway, then you can stay with the status quo. If you think that the public needs to have an investment that returns something to them, that you know is basically working for the state and is not just interested in shareholder returns and is interested in the state getting something back then maybe a public bank is the way to go. You know I talk about it at more length in the book but basically 40% of the world's banks are public banks. They've got a pretty good record. They haven't had the scandals. You know JP Morgan had 20 billion dollars in fines alone, just in one year. And you know that's when it's being under scrutinized perhaps. Most people think that the banking industry is getting away with a lot of things, a lot of scandals. You've had LIBOR scandals, you've had people monopolizing commodities like Goldman Sachs was monopolizing the aluminum market for a while and now Goldman Sachs is not considered a bank. So that, all of these things are, they keep popping up and they don't seem to come up so much in the state bank. That's not to say state banks can't fail, but they have a better record overall and certainly they serve the community.

**RK:** So, wow, 40% of banks worldwide are public banks. Can you give some examples of major first world countries where they have public banks?

**SB:** First world? Well of course our own Bank of North Dakota. Then there's Landis Bank and Sparkhousen in Germany. I was going to say the State Bank of India but I guess that's not first world, but they do have the largest number of branches in the world, of any bank, and that's a public bank. There's a few others, I was focusing mainly on American banks in the book so I'm probably not the best person to talk about globally. But Ellen Brown has written about that somewhat and other people too.

**RK:** 40% is a huge percent of the banks.

**SB:** Yeah, that's our figure. Brazil has a public bank...several public banks, Germany has some. India has the biggest bank in the world, by branches. China basically has a public banking system. Japan has a postal bank which is a public bank. Japan is a big one. So the Japan postal bank is the reason that they can have a 260% debt to GDP ratio and still be able to thrive. Because it's basically money they owe themselves. And you know this is another thing, if we owe money to a private bank, the private bank can recall loans, it can stop issuing money and so forth but if we owe it to a public bank it just recirculates. So that's...it becomes profit for the entity that owns it, whoever that is. And if it's the state then, then it's the state. If it's a private corporation, then it goes out of the state. So if you have a bank that's run like a bank and it's run conservatively and it serves the public interest then the money gets recycled back for the public instead of going out to private hands into who knows what kind of speculation.

**RK:** Okay. Anything else you want to say about hoarding and public banking?

**SB:** No, that covers that I think.

**RK:** Okay so next let's talk about, you started talking about it, so let's cover that, sovereign money. What is sovereign money?

**SB:** Alright, well we've had sovereign money at different periods in our history. The first part would be in the continental during the revolutionary war. When of course congress created its own money which wasn't coming from a bank it was coming direct from the nascent government at that time. Now, of course people immediately say, "well what happened to the continental, it got so inflated it wasn't worth a *continental*," that's the expression. But actually, if you look into the history you find that British were counterfeiting the continental quite a bit. And that was a primary reason for the inflation. Actually the continental, except for the last six months of the war, held its value pretty well. But then the British, as they did it, in those days they counterfeited the money and drove down the value, diluted it. This is in Stephen Zarlenga's book *The Lost Science of Money*, which I quote. So that's one thing. And then we had the Greenback under Lincoln, which was the first national money. Before that we had a number of competing currencies and we had state banks. Not state banks in the way I was talking about before, but state *chartered* banks. We had the United States Bank, which was decommissioned in 1835 by Andrew Jackson. But then Lincoln in 1862 enacted the first legal tender act which created the first United States paper money. We had coins before that, we had coins going back to 1791 but the first United States currency in paper dollars came out of the civil war and it was a way to pay the northern troops when there was not enough in the treasury and the private banks wanted 24 to 36% interest. And this is money that could be issued by the government anytime and any amount. Well Congress, actually, is supposed to do it. But I make the point in one of my articles that if Congress imposes a debt ceiling and forces the president to not fulfill the acts of Congress prior to them imposing a debt ceiling, that I believe, this is my opinion, that the president, in order to stay within constitutional separation of powers he has the authority to issue money, have his Treasury Secretary issue money, in order to fulfill the previous bills that Congress has put out for expenditures. So that would be one way of getting it in there. But basically this is money that doesn't have to be borrowed from a central bank. We don't have to pay interest on it. And interest costs, you know, can be as much as 50% of a large project. Like if you had a large ten year highway project or something the compound interest can amount to 50% of that. So, we had a transportation secretary, Ray LaHood, who was formerly a congressman and when he was a congressman he tried to introduce interest-free money, it wasn't *debt-free* but it was *interest free*, it was bringing back the (continued on pg. 9)

**AMERICA IS NOT BROKE INTERVIEW** (from pg. 6)  
Greenback. It was specifically in the bill in HR 1452 that he was trying to introduce a way of putting back United States notes in the amount of 350 billion. But the previous amount that we had from Lincoln was \$450 million, at that time that was, it amounted to 40% of the budget during the civil war. Because that was a lot more money back then. But then we had, you know, the banking, the private banking interest as usual, they didn't want to lose their monopoly on creating money so they bribed and cajoled and basically forced the marginalization of United States money and you know frankly some, if you read some writing, it looks like they might have been behind the conspiracy to assassinate Lincoln as well...

**RK** Who?

**SB:** Gerry McGeer, he writes in 1935 (The Conquest of Poverty)

**RK:** No, who was behind it?

**SB:** Banks, European banks. Because John Wilkes Booth and his co-conspirators in the trial... they tried to testify that they expected to be rewarded for assassinating the President and Secretary of War Stanton and Secretary of State Seward and that they expected to be richly rewarded for that. Of course they had their own motivations, but the idea is that the banks had their motivations and they were looking for people who were willing to assassinate the President to prevent the spread of sovereign money.

**RK:** Now, you're saying these were international European bankers that wanted this?

**SB:** Yeah, because they actually were in favor of the country splitting in two and having a confederate states and northern United States and thereby weakening the country overall. And certainly in their writings they were very much against sovereign money and Lincoln's Greenbacks and they fought in Congress and they fought among their own banker association to prevent that. The idea was that they wouldn't, you know, they didn't want competition for the act of money creation. So you know, this is hotly contested but a lot of the testimony was suppressed at trial according to McGeer and that testimony pointed to it, and it was a court martial too so it was easier to do. But the testimony pointed to conspiracy, basically, of the bankers to pay the John Wilkes Gang, which is about a dozen people, in order to assassinate the President and end this kind of alternate money, public option for money, let's say. But going back to the concept, what it basically is, is debt-free money that we don't have to borrow, which can be put into the public purposes, it can be used for infrastructure, it could be used for education, it could be used for funding Social Security, you know it could be basically used for anything. At least, in theory it could replace taxes. Now I maintain in the book that there's other reasons for taxes other than raising revenue because it dampens the inequality and it takes away the rent-seeking possibility from the rentier class. So you don't want...you know if you only issue money, let's say, if you were to only issue government money and not tax anybody what would happen is it would go into rent of some form or another, in other words people's living expenses would go up for the things that they can't control for the resources and location that they don't have that they must use in order to live. So you can't do that alone. You also have to tax

the rentier class which is where things like the land value tax come in.

**RK:** Alright we'll get to that, let me ask you a couple questions more about sovereign money though.

**SB:** Yeah.

**RK:** So what you've basically said is that when the continental was released the British destroyed it by using counterfeiting. And when Lincoln created the Greenback he was assassinated by European bankers.

**SB:** Well I'm saying that they paid people who had other motives, you know it's not hard to find people who want to assassinate a president at any given time.

**RK:** You know you want to...

**SB:** There's people out there, that's all I'm saying.

**RK:** You want to debate the fine points of it, but basically the wealthy bankers found some people and paid them and encouraged them to kill him. That's what I'm hearing.

**SB:** That's right.

**RK:** So it makes me think of JFK and what he was trying to change which lead to him being assassinated. And I don't think there are many people who think it was Lee Harvey Oswald anymore.

**SB:** No it doesn't really work that way.

**RK:** Yeah, but so now you're talking about creating sovereign money. Who would be, what organizations would resist and attempt to stop that from happening?

**SB:** Well, certainly the banks because the banks literally make money on creating money. That's what interest is for. So they wouldn't want their monopoly to be ended. And you know people who own treasuries and make money that way. They're basically renting money to the country and collecting interest for that action. So they wouldn't want it either. No, I have it from the people who have actually somewhat support the status quo, but nevertheless recognize that, Modern Monetary Theory folks... I'm just saying that's a school of thought. So the Modern Monetary folks basically say the treasury market is an obsolete anachronism, especially since 1971 when we went off the gold standard and we became a pure fiat economy. So they say.  
(continued on p. 10)



## AMERICA IS NOT BROKE INTERVIEW (from pg. 9)

**RK:** Now you're using language I don't understand, and I'm going to assume some listeners don't understand.

**SB:** Okay, a fiat economy just means basically there's nothing backing the money. So until 1971 we still had, at least on international scale, we had a gold standard. That we were taken off...

**RK:** Well, wait, take a step back. I want you to take a step back because you started saying that the banks would oppose it and then Modern Monetary folks say that, pick up from there. What Modern Monetary folks say.

**SB:** Well there's a school of thought called Modern Monetary Theory.

**RK:** Put it in plain English.

**SB:** Okay. There's a school of thought called Modern Monetary Theory. And they say that the debt is not a problem because in their view we *already* have sovereign money because the FED, according to them, is part of the government. I think a lot of people would dispute that, including me. And that as you know the central bank, even though it was a creation of congress, basically acts independently and certainly the regional banks below them and then the banks below *them* are not answerable to Congress at all. So even though the FED board of governors has seven nominees that come out of the President's office who are nominated for 12-year terms, you know that's about, that's a little more than half of the board, but it's coming from the banking industry, and the banking industry has a lot of influence on Congress anyway because they are basically the largest campaign contributors at this point. Or one of the largest anyway. I think pharmaceutical might still be larger. But you can't say that the central bank is a creature of Congress and subject to its will when the banks themselves have so much influence over Congress. So you know to say that we're sovereign now is not stating the reality of the situation. But in any case what they say is that it doesn't matter if we have debt because basically we can issue our money as much as we need to and we can pay off the debt as much as we need to and it's all an accounting issue. But there's a problem with that because only 18% of the treasuries are all owned by the central bank itself, the rest go to other entities including overseas entities like China. And then what happens is that China is able to basically devalue their own currency.

**RK:** You just lost me, I'm sorry, you just lost me. You said only 18% of the treasuries are owned by who?

**SB:** By the central bank, *our* central bank. So in other words our central bank will buy treasuries in order to issue currency in exchange. So that's how the currency goes into production. So...

**RK:** And what, I still don't get it. I'm sorry.

**SB:** Our Treasury Department can't issue cur-

rency on its own currently because we have this setup with the central bank, so what they need to do in order to get more money into the system is they have to sell treasuries. So they sell the treasuries to a central bank or...

**RK:** You're talking about treasury bonds.

**SB:** Treasury bonds, yeah. So then that way they get more money back into circulation and they can fund the various expenditures that congress has authorized. So this is kind of a kludge-y mechanism instead directly funding from treasury itself by issuing money itself which is what the United States notes were. You can kind of see this if you actually look at a physical bill, like a five dollar bill, an old United States note you'll see that it doesn't have a bank of issuance on it, unlike a federal reserve note, so a United States note is different, it physically looks different on the bill itself and that's an indication of where it's origin is. It comes from the Treasury Department instead of from a regional bank, unlike a federal reserve note. So this is money that's issued by Treasury and it's debt free and it doesn't require interest to be paid on a treasury bond in order to obtain it. So, anyway, getting back to what I was trying to say about the treasury bond issuance. If it's China that's buying our treasury bonds then they're basically able to devalue their currency because they're paying, they're basically paying their own currency in order to buy *our* currency which strengthens our currency which makes our exports less competitive because they're priced in dollars and the dollars are worth more than the Yuan. And so the devalued Yuan in China means they are able to sell their exports more, China is able to sell its exports more cheaply to America because it's priced in the less valuable currency. And so this kind of currency manipulation is something that goes on all the time. And it's one of the reasons for the trade imbalance that we have with China right now. So a lot of people are trying to get China to stop doing this. You know stop basically inflating their own currency while strengthening ours. But the real way to do that is to stop selling the treasuries. If we stop that then they can't manipulate the currency and one of the ways to do that at least would be to issue our own currency under some tight controls yet to be devised. But so that we wouldn't have to basically buy our own currency by issuing treasury bonds and having other parties buy them.

**RK:** So why don't they do that? Who's opposed to that?

**SB:** Well, you know, again we have people who buy treasuries, not people but institutions mainly who make a pretty good living off of that and they think that's just a fine system, they get a little bit of interest.

**RK:** Who, what institutions?

**SB:** Well the countries do, I mean China does and even pension funds are buying treasuries and banks are certainly buying a lot of them. The (continued on page 11)

## AMERICA IS NOT BROKE INTERVIEW (from pg. 10)

banks have to buy them anyways, the large ones anyway, they're legally required to buy a certain amount in order to stay a part of the federal reserve system. So they would oppose sovereign money because they get cut out of the loop basically. And the broker dealers who arrange the buying and selling of these treasuries they also would lose their commissions so that's Wall Street basically and so they would object. And people who want to keep the wealth gap, basically keep United States, or at least the middle class less wealthy than the upper class, the rentiers and the wealthy, this keeps the gap there because it means that the government can't, or at least *won't*, spend as much money on social programs that benefit the middle class or even on tax relief for that matter. I mean we could do away with the payroll taxes for example and fund that directly with Greenbacks, with sovereign money. You know that would be a 12% tax reduction for employers and employees, 6% on each side right away. So that would put more money in the hands of mainly middle class people.

**RK:** And businesses, it would also help businesses.

**SB:** Yeah, absolutely, I mean they wouldn't have that expense and that's a big expense, the payroll deduction. You know it's one of the reasons that businesses are hiring part time people that they don't have to take as much money out for. So I mean a lot of things would happen. You wouldn't have, if you could have some of the sovereign money, you might not have to tax wages or other productive capital and a lot of things could be done.

**RK:** Alright, so getting close to the end of the interview, I saved one of your favorites for last. We're talking about land valued taxation. So tell us about how that is a multi-trillion dollar possibility.

**SB:** Alright, well there's a saying among the people who advocate for this who are called Georgists, I'll describe that in a minute. But that's that "all taxes come out of rent." So basically if you don't have the tax then it would go back into the rent and then we could collect it from the rent instead. So let's say you would un-tax wages or you would un-tax sales, that money would be then collected by the person who owns the land as a form of rent. So then you could directly tax that rent and you would be able to collect that money. Now according to Mason Gaffney, who's a professor, used to be at Southern California, there's about \$5.3 trillion in money that could be collected as rent that's currently not because it's either taxed differently or else it's privatized, it's collected by rent seeking people who own land. You know that rent, so what happens if you don't tax...

**RK:** Well, wait, \$5.3 trillion in the United States?

**SB:** Yeah, in the United States, yeah. So that's the trillions. So using his figure ...

**RK:** Now, is that money that could be collected every year?

**SB:** Yeah. So...

**RK:** Wow.

**SB:** It's about a third of GDP.

**RK:** That's more than the taxes collected.

**SB:** Yeah, well because a lot of it's privatized. So in other words it's not collected by anybody, it just goes into private hands because they own the land and they... the rent is capitalized and so the price that they collect from the price, some of it goes to the banks too because they're making mortgages on basically location. So when you get a mortgage for your house you're not just getting it for the actual house, you're getting it for the location of the house.

**RK:** Alright, so explain to me something. Let's talk about somebody who owns a house. How would things change if the person owns the house and this was put into effect? What would be put into effect and how would it change a person who owned a house?

**SB:** Alright, well basically it depends on how much, how efficiently you're utilizing the land. If you've got a house on a small parcel of land that's using it, well you might even pay less in property tax than you do now because you'd only be taxed on the location, not on the actual house. You know now the property tax is actually two taxes, you're paying a tax on the house, you're paying a tax on the land. And the only one we support as Georgists are taxes on land. So you take away the tax on house so that encourages house building because you've un-taxed it. And it discourages land hoarding because you're taxing that more so people with vacant properties or people who have just a little hovel on a ten-acre spread or something, they would be taxed more. But people who put up a big apartment building on a small part of land, who use the land efficiently, therefore, they would actually be taxed less because the building itself is un-taxed but the land is being efficiently used so basically they're making more use of it and they would pay less proportionally in taxes. So in urban areas especially this becomes important because you have these huge buildings on small parcels of land. But what's happening now instead of collecting on the locational rent, we're un-taxing properties entirely or nearly entirely. In New York City we have something called the 421a plan which is a 95% tax abatement. So what happens then is that the price goes up because the rent on the land is so obliterated. So that rent gets capitalized into the price so you've got property like let's say One57, on 57th street where apartments are going for as high as \$100 million each, another one went for \$90 million and so that's property that's un-taxed, 95% un-taxed on the property. And so the money doesn't go away but what happens is it... (continued on pg. 12)



## AMERICA IS NOT BROKE INTERVIEW (from pg. 11)

**RK:** So the property is un-taxed but the, what's built on it is what's taxed currently, right?

**SB:** The building, no, I mean the whole thing the property tax includes the land and the building tax. So the entire tax is not collected except for 5%. So...the property tax is two taxes, but it's collected as one, so the whole thing is...

**RK:** Why do they get away with that?

**SB:** Well, because the real estate lobby is the biggest lobbying group in our state. You know we've had some scandals recently where two of the top family members have been indicted for things like real estate, taking campaign contributions and doing pay for play and that kind of thing. So I mean, Governor Cuomo's largest donation to his campaign is from the real estate lobby. So why do they do it? This is the business of New York City. It's basically real estate and banking. And so they have the most influence and they want to keep their profits for themselves. They don't want the rent going back to the people. They would like to collect it on their own.

**RK:** So are you basically saying that the government would own 100% of the land and it would be rented?

**SB:** No, the *legal* ownership would not change but the *economic* relation would change. You know we're all for keeping the same legal ownership to the land but we want to collect as close to possible as we can the full rental value of the land. And if you did that...

**RK:** But wait, why would the government collect rental value of land, why doesn't the owner collect the rental value of the land?

**SB:** Because the owner didn't create the value. See the owner just bought land in a particular location. Think of it this way. If you have One57, that building I just mentioned, and instead of being in New York City, it was the middle of New York State...you know same building and everything, same amenities, but then how much would it be worth at that location? You know obviously it would be worth almost nil. Because the middle of New York State is farmland. It's because it's in the location that it's in that it can command such high prices. So even though it's a fine building and it's got all these great things, it's not really *that* that gives it such high value, and besides that people wouldn't build a building like that in the middle of New York State, it wouldn't make sense. So you know there's a synergy but basically it's a community that's creating the value for that property. It's not the building owner. But we say, okay, so the building owner gets to make a nice building and he should keep the property, he should keep the value for the building itself, we don't want to tax the building, but we do want to tax the location. And if that location was properly taxed then you would not be seeing \$100 million apartments that are vacant and basically being held, as New York Maga-

zine called them, as "stash pads."

**RK:** Why wouldn't you?

**SB:** Because you couldn't make a profit. The rent would be collected by the city and so therefore the locational value would not just keep going up because that would be collected. So you know as the value of the neighborhood goes up, the rent will go up for that location. So you can't...

**RK:** The rent that is collected by the government.

**SB:** Right. Well, I mean it's collected but the rent is going up regardless of who's collecting it.

**RK:** Well, this is where it gets confusing because, now I have an apartment and I pay rent.

**SB:** Well, it's not the kind of rent that ...

**RK:** Can you differentiate between the kinds of rent?

**SB:** Yeah, economic rent is a broader concept then the rent that you pay the landlord. It's, see it's not just for maintaining the building, it's really for locational value and for natural advantages. So you can't...

**RK:** Well just simply, who pays the rent? Does the tenant pay the rent? Or does the owner of the building pay the rent?

**SB:** The building pays the rent but they get it from the tenant. Now people will say "well, if you raise the rent on the building won't it be passed on to the tenant?" Not really because what the market will determine is what people are willing to pay. And if you try to raise the rent then they're go somewhere else. Or if the rent is lower it gets capitalized into the price which is what's happening to buildings like One57 that have essentially no rent.

**RK:** It sounds to me like this is the most radical of all the changes.

**SB:** It could be. You know there's some people who think that Karl Marx was less of a radical than Henry George who came up with this idea. So that's why people are free to discuss communism but not Georgism. There's a lot of people who think that, actually. Because basically...

**RK:** Well wait. Let me get this straight. It's kind of a mind boggling concept. How much is estimated of rental value is there in New York City?

**SB:** Well the Department of Finance says that the land value alone is half a trillion dollars. But we believe that's under-assessed by at least half. So it could be a trillion dollars. The assessments have something to do with it because they're often obsolete now that they... (continued on pg. 13)

## AMERICA IS NOT BROKE INTERVIEW (from p. 12)

**RK:** So it could be one fifth of what's estimated to be the USA's value?

**SB:** No, that figure, you know includes, in other words the rental value *per year*. It's not the same as the actual value of the land. So if you were to somehow be able to sell all the land in New York City, then according to the Department of Finance you would get half a trillion dollars. Now of course you can't sell it without depreciating the market but let's say you were able to sell it somehow to somebody, that would be half a trillion dollars. But that's not the same as the rental value you get every year. You don't get the full amount every year. You can only sell it once. But the land itself is supposedly worth half a trillion and we think it's a trillion.

**RK:** So what would be the land, what would be the rental value every year?

**SB:** Yeah, I mean the total value of land in US, I've seen one estimate lately which was \$28 trillion but you know these numbers are very slippery and it's very hard to calculate because you can't market it for one thing so you can't really get a full understanding of it. But you know based on some cities that have been more carefully calculated then added together, it's certainly in the tens of trillions, but it's hard to say exactly.

**RK:** Okay. That sounds kind of low.

**SB:** It is low. It probably is because we're also talking about things like location slots and airports, like spectrum use on radio, you know radio waves, spectrum is a form of land also according to Georgists. Land is not just physical terra firma, it's also any resource that is produced by nature which can't be made by man so the radio spectrum is land, the water is land, air is land. This goes back to classical economics when they define land as basically *all* natural resources. So it's a little bit confusing. When I say land it's really meaning all natural resources of the world. So it's actually very low in that case.

**RK:** Wow.

**SB:** So when people calculate land values, they're talking about the other kind of land which is just locational value of actual physical property.

**RK:** Okay, so let me get back, because we've got to wrap this up very shortly. What would be the rental value every year for New York City, any idea on that? If it's a half a million to a million for the actual real estate value? How much rent is paid based on the value of the property?

**SB:** Yeah, it's hard to figure but you know we have a system now that, we essentially collect about 4 to

6%, closer to 4% of the full value of the locational value of the property. So between 4 and 100% there's a lot of leeway. Now if you collected 100% of the value that would mean basically you collect the full price of the property every year which would drive value--

**RK:** That doesn't make any sense.

**SB:** No, so you wouldn't do that. So you would drive the price to zero which you don't want to do. But you can stop well short of that before you drive the price to zero. But the point is that you know we're basically letting the private developers pocket this amount of money that they haven't created and they just basically have gotten because of the community building up the value. So that's what the land value tax is supposed to collect.

**RK:** Alright, we've got to wrap up.

**SB:** Okay, there's a lot to talk about.

**RK:** Yeah, and your book does a really good job of laying it all out. I kind of attacked you from different angles, but you've done an organized way of putting together in the book that's really excellent. Let's just wrap up with this. If your book is successful, what will it have done?

**SB:** Well, it would energize people and make them aware that we're not broke, that we have alternatives that people aren't thinking about and are not talked about in the media anywhere really, except alternative media. It would make them realize that they're being hood-winked, that's what happened to me when I learned these things. And that the politicians and the media are being slippery with the numbers, they're not talking about what's real. Hopefully, they'll get angry and they'll write their congressman and protest and do all the things that we need to do to get social change to reclaim what's rightfully ours.

**RK:** Okay. Scott it's been great to have you on. Just so I repeat this is the Rob Kall Bottom Up Radio Show WNJC 1360 AM sponsored by opednews.com My guest has been Scott Baker. He's the author of *America is Not Broke: Four Multi-Trillion Dollar Path to a Thriving America*. Thanks for being on the show, Scott.

**SB:** Thanks.

(The *America Is Not Broke! 4 Multi-Trillion Dollar Paths to a Thriving America* website is at [americaisnotbroke.net](http://americaisnotbroke.net). *America is Not Broke!* may be ordered through Amazon: <http://amzn.to/1lhcc54> )

(Scott Baker may be emailed at [ssbaker305@gmail.com](mailto:ssbaker305@gmail.com)) <<  
=====