I. A Hamiltonian Economic Recovery

What Is America's National Credit? Can We Use It for Real Economic Growth?

Review by Paul Gallagher

PART 2 OF A TWO-PART SERIES.

A Resource of War—The Credit of the Government Made Immediately Available: History of the Legal Tender Paper Money Issued During the Great Rebellion, Being a Loan without Interest and a National Currency
By Elbridge Gerry Spaulding
252 pages, paperback, $14.95
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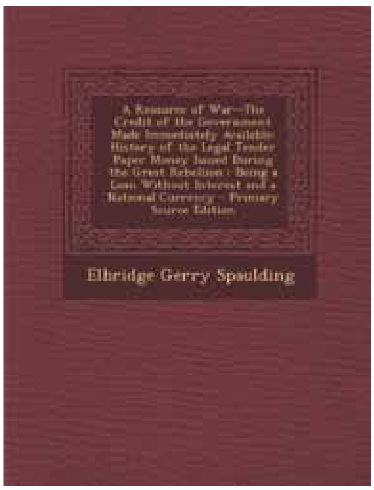


April 5—With the enactment of the Legal Tender Act of 1862 and the Banking Acts of 1863 and 1864, the United States had a national paper currency for the first time in a generation—over $600 million created as a war emergency action. Being a debt of the nation to its people, the new currency helped the Union borrow nearly five times that much to fight the Civil War. That nearly $3 billion in new national credit made available, was backed in turn by about $600 million in new, broad-based taxation. As Ways and Means Chairman Elbridge G. Spaulding explained (see Part 1), the new taxes essentially paid ordinary (non-war) government expenses and the *interest* on the new debt during the war.

The debt itself, the principal, was held by patriotic citizens and institutions who had taken it for a 20-year period and could use the "Greenback" portion of the debt as money. We have seen that the tremendous U.S. economic expansion, which actually began during the Civil War, made the next generation's repayment of the debt, with much greater tax revenue, easy.

This was Treasury Secretary Alexander Hamilton's principle that a public debt is a public blessing, if invested to advance new productive capacity, new invention, new productivity, *and* if the means for its future payment were assured. It was stated in his 1791 "Report on the Public Debt" to Congress. The Treasury's making credit available by printing legal tender paper currency, was a successful innovation of the Lincoln Republicans.

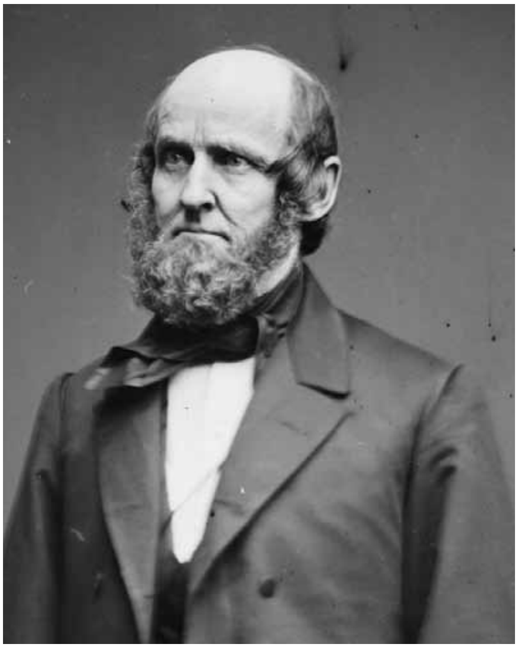
The principle is still valid now.

Reorganizing Banking

Chairman Spaulding and other followers of Alexander Hamilton's economics—that is to say, virtually all Lincoln Republicans—thought that a national paper currency for all uses should issue through a national bank—not from the government, the Treasury. Not only would such a bank avoid excessive printing of new money to pay ordinary government bills; it could—essentially—take that currency back from private banks around the country which engaged in usury or pure speculation.

The Congressional debates recounted in Spaulding's book show that it was a great leap for these Lincoln Republicans, including Spaulding, to legislate printing of the new legal tender paper currency directly by the Treasury. In fact, Secretary Salmon Chase's stated reason for declining to issue a firm statement supporting the legislation when Spaulding needed it, was the lack of a national Bank to control it.

The private banks, particularly those of New York, Boston and Philadelphia, were of great concern: They were state-chartered, poorly capitalized, and engaged in speculations ranging from mild to wild. Those Republicans who opposed issuing a legal tender currency argued that the Union government should, instead, borrow by issuing bonds directly "on the market"—i.e., to those banks—while imposing very large new taxes to pay them off.



Mathew Brady

Elbridge G. Spaulding

The Congressional debates recorded in the book make clear that Spaulding—a banker himself—, Speaker Thaddeus Stevens, and other Republicans understood that bank speculation would cut a worse and worse discount off the government's bonds with every new borrowing, effectively squandering huge new tax revenues on banks, not soldiers. Spaulding was unusual in *also* forecasting that the Civil War could be lengthy, and absorb spending on an unheard-of scale: The private banks were nowhere near being able to fund the debt required.

Here the "Glass-Steagall principle" of bank regulation emerged for the first time. The Lincoln Administration's Banking Acts—which took effect on January 1, 1863 and January 1, 1864—effectively compelled banks to acquire Federal charters, which required that they buy Treasury bonds *and hold them as their own capital reserve*, and allowed them to issue Treasury notes as their own currency. *And*, they prohibited chartered banks from securities speculation and broker-dealing.

No attempt to make the nation's credit available on a large scale for national purposes, can work without such Glass-Steagall break-up and regulation of private banks.

To Carry the Nation Rapidly Forward

Given the success of Greenbacks under such conditions, no one can claim that the United States Treasury today cannot issue even trillions in new Treasury notes (Greenbacks) to "make the national credit available" for building a new economic infrastructure or other crucial purposes. If done properly, it will set off neither runaway inflation nor other economically damaging effects, and will be for the government "a debt to future generations," as Lyndon LaRouche often said.

Second, Chairman Spaulding's example has in

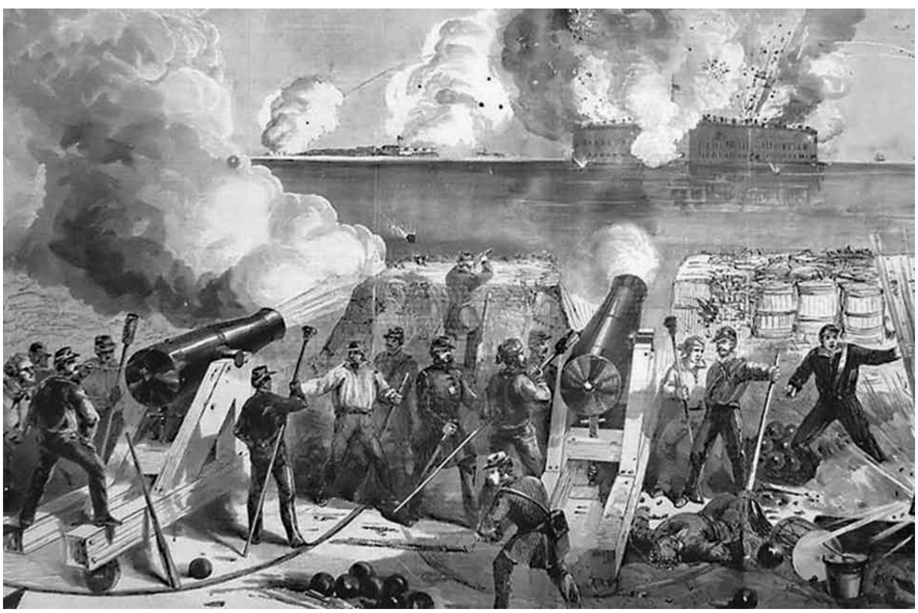


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Illustration showing Confederate artillerists firing on Fort Sumter in April 1861.

common with our present time, the *magnitude* of the value required—then, to fight the war; now, to build a new, high-technology basic economic infrastructure while replacing much of the deteriorated old one. What is that magnitude?

Note that the approximately $600 million of new currency issued by the Union government during the Civil War—Greenbacks and new "national bank currency"—was nearly double the *total* amount of currency in circulation in the United States, including the slave states, before the war. Congressman Spaulding noted a New York State Appeals Court decision in early 1864 on the legality of the Greenbacks as legal tender:

> We take note of the fact that to maintain armies and provide a navy for the prosecution of the war, more money is needed annually than all the specie within the United States, and that a resort by the government to the *use of its own credit*, was not only a matter of necessity, but the result has demonstrated that it was a measure of prudence and wisdom.
>
> [Moreover], The facilities [including money] for carrying on the business of the country, as they existed before the war, were still necessary to carry on that business, and could not safely be withdrawn from it [to spend on the war]; and a new currency, national in character, and to some extent a new financial system, must be *created* to meet the new and enlarged demands of the war.

A Civil War One Dollar "Greenback" Note from 1862.

As in the case of Union's need for currency in the Civil War years compared to the total currency in circulation before that war, America's current need for investment in new infrastructure, manufacturing invention and productivity is huge compared to its currency in circulation. It is not huge compared to what the real economic activity of the country *could be*. But that is exactly the reason these investments are urgent.

All realistic estimates of the national credit that must be mobilized for basic economic infrastructure investments, are in the multiple trillions. The relatively conservative American Society of Civil Engineers creates annual "report cards" which do not deal with *new* infrastructure technologies like nuclear desalination and propulsion, high-speed and mag-lev rail, or fusion technologies, but only with restoring and upgrading the nation's *existing* basic economic infrastructure. Yet the Society estimates $2.4 trillion must be invested in just five years, a very short time in economic terms. Other serious evaluations, which incorporate from 50 to 100 significant projects—and not even the most ambitious ones—are in the $3-5 trillion range, up to $8 trillion by one of China's state investors who wished to invest in infrastructure renewal in America.

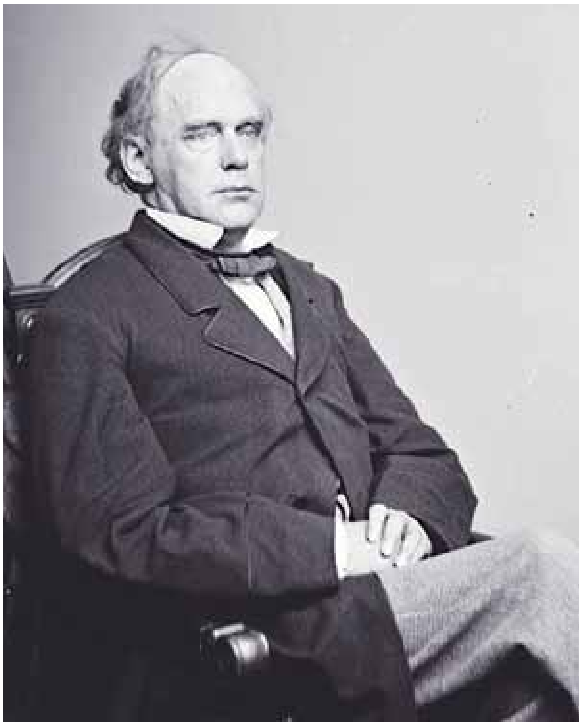
The Shadow of a Magnitude

Compare, to the magnitude of these needed investments of any "crash program" to rebuild America's real economic mind and muscle, the dollar currency in the U.S. economy—in circulation, in checking accounts, in time savings accounts of various types, or in the capital reserves of banks. It totals about $3.9 trillion (according to the Federal Reserve), including the Fed's money-printing in its "quantitative easing" and bank bailout programs.

And just as E.G. Spaulding pointed out regarding the Civil War, currency cannot be withdrawn wholesale from its current uses, into an entirely new campaign to renew the national economic infrastructure.

Nearly three times that much dollar money supply exists *outside* the United States—the result of our having lost control of the creation of dollars to the London-centered "offshore" financial system from the 1960s on.

So to fund the great new "war" on deindustrialization, obsolescence, infrastructure breakdown and disaster: either create a national bank or credit institution that can succeed in bringing significant overseas dollar-based liquid assets back to the United States, combining them with domestic assets, and directing them into the most productive investments; or, let the Treasury print very large issues of new Treasury notes, and so direct them.



Salmon P. Chase, Secretary of the Treasury.

And there is no economic reason why the Treasury could not or should not do this, to move the most transformative and productive projects forward immediately. As Chairman Spaulding wrote then, they "will carry the nation so rapidly forward in power and resources, that nothing need prevent the government from paying the last dollar of the debt incurred" from the economic progress of the next generations.

Directing the Credit

As soon as Congress had authorized—with President Lincoln's signature on February 25, 1862—the Treasury's printing of the Greenback currency as legal tender, the government had masses of war bills waiting to be paid with it, to soldiers, contractors, shipbuilders, arms companies, teamsters, and so on. There was no difficulty in directing where this new national credit would go; it would go to fund mobilizing and fighting the war.

Moreover, Chairman Spaulding was confident that the great majority of the Greenbacks could be quickly *borrowed again* from the public, if 20-year Treasury bonds with 6% interest were offered in exchange for Greenbacks; and he was proven correct. This was called, in the Act, "funding" the Greenbacks; the "loan without interest" (Greenbacks) was interchangeable with a "loan with interest" (the bonds). Obviously this enabled the Union government to spend the funds a second time, and in a still more directed manner. This time it committed itself to pay interest, and repay the principle if demanded—in 20 years.

In addition to $440 million in Greenbacks, under President Lincoln's and Secretary Chase's plan, Treasury bonds in larger denominations were issued to banks, which bought and held them as capital in order to obtain Federal charters—the nation's first national banking system. Another $200 million in new currency, called by Spaulding "bank currency," was issued later in the war by Treasury, through these banks, which were under a "Glass-Steagall" principle of regulation: barred from securities broker-dealing and speculation.

This currency kept expanding after the Civil War as credit for the extraordinary infrastructural, industrial and productivity expansion over the next generation.

And other forms of new credit were issued, down to short-term government promissory notes—in total, $2.8 billion, Spaulding computes.

On the new taxes: "Enough money was realized from these sources to pay the ordinary expenses of the government and all the interest on the war debt. . . ." But just $300 million of the $2.8 billion war debt *principal* was repaid by 1868. The ensuing industry/technology boom paid it—easily.

Thus the new national credit *multiplied* the $600 million in new taxes by five times.

Those elected officials and organizations today, who are proposing to enact new taxes and just spend the revenue on new infrastructure, are *ignoring the credit of the nation, made available successfully in previous crises*. Consequently their proposals fall far short of the urgent need.

Some in the 1862 Congress, including some of Lincoln's party, so feared issuing a legal tender paper currency, as to propose taxing for the entire cost of war, borrowing some on Wall Street with whatever "haircuts" Wall Street would impose. That $2-3 billion in war taxation would have crushed the Union's economy. Fortunately for the nation, Spaulding and others who understood "the credit of the nation," prevailed.

Direction by the Fed—To Wall Street

The Federal Reserve Bank, which prints America's currency now, directs its issuance of that currency very precisely—to the largest private banks, for the purpose of building their capital reserves and their liquidity, even far in excess of what is required by regulation. These banks, unfettered by any Glass-Steagall regulations, use their excess reserves as the basis for speculation. The Fed has printed more than $4 trillion in new currency since the 2008 crash, *directed to this purpose*—even including the reserves and liquidity of London and European banks!

The chair and governors of the Fed, a "reserve bank" for banks, say this is their charter's mandate. It is of no use to the U.S. physical economy. This is what Fed supporters call its "independence" from the Federal government's purposes.

If the Fed were instructed by Congress to issue trillions in currency for any sort of infrastructure investments, it would fight this, to keep using its control of currency to control interest rates and to feed liquidity reserves to money-center banks. And the Fed would still be run by major bankers, bank traders and academic economists, with no expertise in investing credit in productive, high-technology new infrastructure.

Worse, the technologies it would be funding in some "Green New Deal" are low-energy-density, expensive facilities which can litter the land anywhere and will lower the technological level of the economy. It would be lending the new Federal Reserve notes to hundreds of state and community banks newly created for the haphazard "greening" of locales, lowering productivity of industry and agriculture. Unsupported by productivity increases or tax revenue, this new $2 trillion could trigger rapid inflation.

As LaRouche warned, "disaster would ensue" from Fed control of such a chaotic currency issuance. Worse, the promotors want to reduce the human population to "save the planet."

A National Credit Institution

Congress and the President have to direct the issuance of national credit to those investments which cause the greatest increase in productivity in the economy—in new basic infrastructure and in revolutionary technologies like plasma processes, fourth-generation fission, and fusion. This must include protective infrastructure particularly against storm and flood—productivity increase emphatically includes ending the senseless, repeated loss of many lives and tens of billions in wealth from flooding rivers that could be managed and storm surges that could be stopped by new infrastructure.

The Treasury now can issue new credit and currency to agencies or authorities specifically tasked with carrying out missions of new infrastructure or crash programs of science and technology research and development. A new Reconstruction Finance Corporation modelled on President Franklin Roosevelt's RFC can organize this process.

But Lincoln's Administration combined the direct issuance of Treasury credit as new Greenback notes, with the issuance of Treasury notes through a system of Federally chartered commercial banks, *essentially capitalized with Treasury bonds*.

A new Bank of the United States can be created by Congress, capitalized both by the Treasury and by private holders of Treasury securities. A key advantage: It can bring back into new infrastructural investment some of the dollar-based liquid assets held overseas—recall that three-quarters of dollar holdings are abroad.

That Bank can be the instrument to multiply many times the tax revenue assigned to it to pay interest or dividends on the long-term capital subscribed or loaned to it. It will enable the issuance of new currency on a large, but controlled, scale through this Bank. It will operate as a large commercial bank, funding projects and technologies, including in partnership with other major nations' national credit institutions. Therefore it must be run by directors and staff experienced in scientific and construction projects as well as in banking. And it must operate in cooperation with private banks under Glass-Steagall regulation.