Generalizing the Principle Of Government Credit

by Michael Kirsch

This is Part II of a lecture given on July 29, 2013. Part I appeared in last week's issue. The video of the entire lecture is at http://larouchepac.com/node/27592.

Each of President Franklin Roosevelt's credit lending institutions, like the National Bank, operated on the principle that they were to provide the possibility of a loan or the back up for an active agreement between the public and private sectors.[1] And a great example of that is the Commodity Credit Corporation. You see this characteristic in the Oct. 16, 1933 Executive Order by which it was created:

> Whereas, the Congress of the United States has declared that an acute emergency exists by reason of widespread distress and unemployment, disorganization of industry, *and the impairment of the agricultural assets supporting the national credit structure, all of which affects the national public interest and welfare*, and
>
> Whereas, in order to meet the said emergency and *to provide the relief necessary to protect the general welfare of the people*, the Congress of the United States has enacted the following acts. . . .

It is this tone of voice, which you had not seen since the time of Lincoln, of a government willing to come out and say, *"We exist, we are a power, that is the purpose of the nation*; the nation is not set up for Andrew Jackson's 'simple machine,' laissez-faire, and the idea that we are going to become tools of a private financial power."

The Commodity Credit Corporation was an example of using the powers of Congress to create the necessary means to effect the objects: "To carry out the provisions of said acts it is expedient and necessary that *a corporation be organized with such powers and functions as may be necessary to accomplish the purposes of said acts."*[2] There were laws that were passed, these various acts just referenced, and every law has objects and purposes that it lays out. And then the government has the power to come up with whatever the means are that will be the best way to effect those objects, which is actually discretionary. And therefore corporations are formed as the means to effect the objects of the laws.

Today the idea of setting up a credit corporation by the government is something people do not have a clear sense of at all, because they are thinking in a monetarist way. They are thinking, "What has happened has happened, and it's not our job to come in and control the process."

The Commodity Credit Corporation, on the other

1. Roosevelt set up a group of credit institutions to promote the general welfare and to get the economy moving: the Commodity Credit Corporation; the Tennessee Valley Authority; the Public Works Administration to provide work relief on large public projects; the Agricultural Adjustment Act to restore agricultural income; the Emergency Farm Mortgage Act to save farms from foreclosure; the Emergency Railroad Transportation Act to help the railroad systems and to restore oil and petroleum from disaster; the Federal Surplus Relief Corporation to help farmers and the unemployed by purchasing surplus foodstuffs; and the Civil Works Administration for non-public works projects relief work, building schools, etc. Roosevelt wrote that all of these institutions were organized forms of self-help to allow the population to build their own way out of the crisis, with the hand of the government acting as a backing of the process, but not as a direct guide.

2. 1) The Agricultural Adjustment Act, May 12, 1933; 2) the National Industrial Recovery Act, June 16, 1933; 3) the Federal Emergency Relief Act of 1933, May 12, 1933; 4) the Reconstruction Finance Corporation Act, Jan. 22, 1932; 5) the Federal Farm Loan Act, July 17, 1916; 6) the Farm Credit Act of 1933, June 16, 1933; 7) the Emergency Relief and Construction Act of 1932, July 21, 1932.

Philadelphia Historical and Museum Commission

Nicholas Biddle (1786-1844), nation-builder and president of the Second Bank of the United States.

hand, was the idea of taking parties in the private sector, and allowing the cycles of each part of them to be delayed to effect a transfer of wealth, to allow the output of the different parts of the productive system to actually mesh in their cycles. Rather than the policy that if they do not happen to mesh, then they both go bankrupt, and the government says, "That's just the way things are."

The object of the Commodity Credit Corporation was to contribute to the support of farm prices by enabling producers to hold on to their products, which might otherwise have to be dumped with the resulting price declines. Roosevelt describes its purpose: "*to help the farmers of the Nation by lending them money on their surplus crops so that they might continue to hold them instead of dumping them on already saturated markets.*"

The role of credit came into play, in the form of this government credit institution, and made it possible for banks or other local lending institutions to lend money to farmers, so that they would not be forced to sell their goods immediately at a too low a price and flood the market. If the bank had discounted a bill of exchange for the farmer, but it needed the cash right away because of a demand *upon it*, then the Commodity Credit Corporation would purchase this bill of exchange that the bank was holding.

It was providing the context in which credit agreements could occur without the risk of total collapse, and, in reality, providing the context in which credit agreements could even occur. The cycle of the farmer could now be offset in order to ensure prosperity. And that was just one example, which a lot of these institutions reflected.

The direct comparison of this institution and the Bank of the United States is remarkable. Nicholas Biddle used the exact same language in 1811, when he was defending the first Bank of the United States during a debate in the Lancaster, Pa., House of Representatives. (Biddle was the third director of the Second Bank of the United States, who re-established Alexander Hamilton's system, with John Quincy Adams, in 1823-25.) Speaking in the State House as a legislator in 1811, Biddle stated:

> To my mind no principle of national economy is clearer, than that the most natural way of protecting the poorer classes of a society is by a [national] bank: an institution . . . *which enables the farmer to reserve his crops for a better market, instead of sacrificing them for his immediate wants*; and by loans, at a moderate rate of interest, relieves every class of society from the pressure of usury.

So you see *exactly the same idea*. You need a national credit institution which allows the economy to act on the time scale of the human mind. The human mind can know that this farmer is going to come to a season when he is going to have all of these goods, but that the rest of the economy is not ready for them at that time. Allowing these random cycles to determine what the prices are, and then to therefore collapse the living standard of your farmers and others, "just because," is inhuman, and is against the idea of government, as the representative of the people.

If the government decides it wants to make that process more coincident with mind, and guide the process, then it sets up a credit-lending institution. It is then guiding these relations, not only of agriculture, but transportation, production, etc. It was that whole system, which John Quincy Adams and Nicholas Biddle set up, which created a giant surplus by guiding different cycles of the economy, as Biddle did with the farming sector of the West. Bills of exchange, letters of credit, would be discounted in the western branches of the Bank of the United States, in his time, and then find their way east, where the merchants would be importing and exporting goods, and the Bank allowed the farmers to get the best prices for their goods.

By extending credit to the farmers, then, if they had a bad year, they did not have to sell off their farms because they had gone bankrupt. The nation was enabled to continue building the power of production: more farms, do not let the farms just collapse; more manufacturing, because of the credit from the bank; more internal improvements, because of lending for the canals.

Now what did this do? Biddle came in as Bank director in 1823 and reorganized the system. At this time, President James Monroe had agreed with Hamilton, regarding the powers of appropriation of money, "to lay and collect taxes." What does it mean "to lay"? It means to put down; you can put forward a bounty or duty, but you can also collect taxes. Monroe came around to agree that the government could appropriate money for canals, that this was implied in the powers given to government in the Constitution. Benjamin Franklin, at the Constitutional Convention, had wanted it to be an explicit provision, to have the power to appropriate money for canals. Monroe came around in 1823-24. He started the National Survey Act, and Army engineers started designing canals and railroads. In 1825, the Erie Canal was completed, but other states were also launching projects in 1823 and 1824.

When Biddle came in as Bank Director, as the patriot he was, he and his associated nation-builders, such as his close associate Mathew Carey, launched the biggest industrialization and overall increase of production that that the nation had seen up till then. And years into the process, especially under the Presidency of John Quincy Adams (1825-29), it created a huge national surplus from tax revenues.

Then Andrew Jackson came in as President, acting as a complete tool of Aaron Burr, Van Buren, John Randolph, et al.—the anti-nation-state interests, which I have written about and will go through in a different presentation. But the key point of relevance here is that Jackson moved immediately to pay off the national debt, which he was only able to do by the work of Biddle at the Bank, who made sure, through the credit operations of the Bank and the management of deposits and funds, that the nation could keep generating enough surplus productivity to maintain growth, while at the same time sink all of this debt.

There was no reason to pay off the debt so soon. All it did was slow down the growth that we could have had. It was fine to pay off a lot of the debt, because you have to make good on it sometime, but the reason Jackson was made to do so by his controllers, was to obtain the "justification" to then drop the protection against foreign laws which had been given to manufacturers; to drop the development of canals and rails, which Jackson opposed early on, in 1830; to argue that the sale of the public lands, which had given money to the Treasury for internal improvements (roads, canals, and rails), was no longer necessary, and that they could now be given away for free to the states; and to destroy the Bank, which was deemed no longer necessary to coordinate the economy to create a surplus, because we had now paid off the national debt.

Biddle, as the head of the Bank, spent years working to generate a real physical surplus, by coordinating the cycles of debt and credit throughout the economy, and organizing all of the assets of the branches of the Bank, and all of the assets of the government, in such a way as to maintain productivity and a physical surplus. Reading through Biddle's letters, and the history involved, one is presented with an absolute dedication and mastery of national economic cycles, managed day in and day out; the picture of a nation-builder looking at the whole economy in his mind, and regulating the Bank to generate this hard-earned surplus. And then these traitors, Jackson et al., look at the surplus as something that just happens to be there, randomly occurring, and decide to throw it all into paying off the debt immediately.

Involved here, is the distinction between monetary debt, as treated by Jackson et al., and credit debts, as Biddle used them, and as Hamilton did before him. The failure to understand the correct view of debt is something which Franklin Roosevelt addresses in his budget speeches, [which I will take up in Part III].