

Financing the Global Land-Bridge 2064

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I. Preserving a Separated Commercial Banking System: The Glass-Steagall Principle

The issuance of large masses of credits among countries for large-scale and modern new infrastructure platform requires, first, “Glass-Steagall” bank separation and regulation by the nations involved. Without such legislation urgently soon throughout the trans-Atlantic nations, the major banks are facing another crash. Furthermore, historically, such productivity “driver” projects on a national or global scale have always been financed through national credit. For example, if such credit is issued directly to banks (private or national) that are plugged into securities markets and offshore profit centers, or have large parts of their asset books in high-risk securities and derivatives activities, that is where credit will flow. However, if nationally chartered commercial banks have been protected, regulated, and kept out of securities market speculation, those banks will participate in the infrastructure driver projects through vigorous private lending.

The Glass-Steagall principle—strict commercial banking based on mediation of deposits into industrial and commercial, household, and personal loans and

leases, supported and regulated by a national bank system—is historically an American development. The United States’ first Treasury Secretary, Alexander Hamilton, specified the banks, public and private, which the new government would encourage to form, in his *Report on a National Bank*.

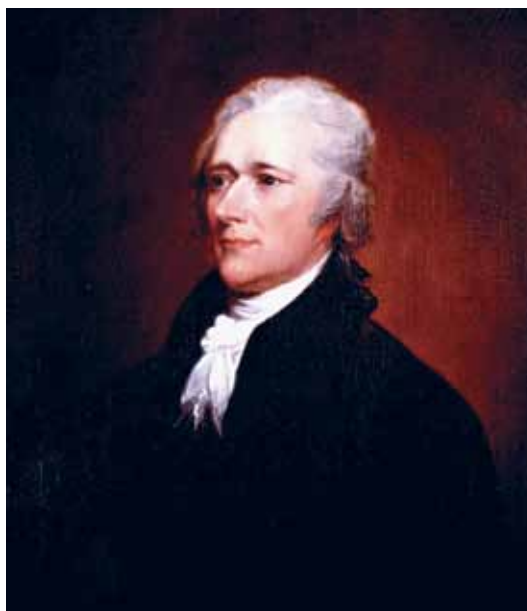
Hamilton defined banks as mediating the investment of otherwise temporarily idle savings into lending to enterprises—and serving the great national purposes of the United States. Whereas the Bank of England was formed fundamentally to lend directly to British governments,

Hamilton’s Bank of the United States was formed to encourage nascent manufacturing and economic infrastructure. Whereas the merchant banks of Europe were primarily engaged in securities speculations, Hamilton defined U.S. banks as lending to agriculturists, manufacturing enterprises, and households, i.e., commercial banking.

U.S. private commercial banks have fulfilled this role for long periods when federally well regulated. The principle of the Glass-Steagall Act was upheld by the U.S. Supreme Court in a landmark 1971 decision (*Camp v. Investment Company Institute*), which held it a proper purpose of Congress to prevent commercial banks from straying from this role, into the

lure of securities speculations promising high profits but dangerous to the banks. The U.S. commercial banking sector has in the past proliferated into many thousands of regional and community banks, with—until the past 20 years—no global giants.

The Glass-Steagall Act was enacted June 16, 1933



First U.S. Treasury Secretary Alexander Hamilton, shown here in a painting by John Trumbull in 1806, set the standard for American System banking, banking directed to increasing the productive powers of labor.

in the United States after a period in which the largest banks in the country had used their customers' deposits heavily for speculation in securities—including the banks' own securities—and large numbers of banks had thrown the deposit base into stock market speculations such as the infamous Insull electricity utility stock and Morgan railroad stock swindles. After the failure of one-third of all U.S.-based banks by 1933 and government rescue of another third, deposit insurance was introduced together with a strict separation of depository institutions' commercial banking from all other broker-dealer and securities investment activities and companies—"non-banks." The purpose and principle of Glass-Steagall was that investment funds entering the securities markets and their derivatives would have no form of government subsidy or explicit or promised support for their losses, and that commercial banking, which was protected, insured, and allowed government liquidity borrowing, would not be allowed into securities speculation.

The Glass-Steagall Act's regulations basically had four components. First, the requirement that commercial banks, investment banks or broker-dealers/funds and similar entities, and insurance companies (able to underwrite and sell insurance) be entirely separate from one another, and not share directors, ownership, or management. Any commercial bank or bank holding company that has such interconnections must separate completely from them within a reasonable period, usually one year.

Second, the definition of a significant range of securities and derivatives activities as "not sufficiently closely incident to banking as to be proper to it," and therefore not permitted to commercial banks. Third, the provision of Federal deposit insurance exclusively to support commercial banks and their depositors. Fourth, the prohibition against transferring any but AAA securities, within a holding company, onto the books of a Federally insured commercial banking unit, or otherwise causing low-quality securities to be backstopped by government funds.

For more than 60 years after its passage, under Glass-Steagall organization of the commercial banking system, no U.S. bank failure triggered failures or bailouts of other banks.

After the Glass-Steagall Act was progressively eliminated over the course of 1994-99, the effects in U.S. banking were dramatic. The failure of merely a large hedge fund, Long-Term Capital Management, nearly

broke the banking system in 1999 because 55 banks had poured leveraged loans into it. The largest banks became impossibly complex, going from typically 1-300 subsidiaries to typically 2,500-4,000 subsidiaries, buying and creating what were overwhelmingly securities and broker-dealer vehicles. The derivatives markets exploded geometrically with the flow from depository giants, from about \$70 trillion notional value in 1997 to \$700 trillion in 2007 according to the Bank for International Settlements. The largest banks became entirely interconnected with one another, particularly through their mutual derivatives exposures, while their leverage ratios were allowed to rise from typically 16:1 to 30-35:1. Loan/lease assets fell to about half of total assets, while the banks became rapidly larger. The big banks then crashed in 2007-08, saved only by government agency credit extensions to the financial sector—which at one point reached \$14 trillion according to the chairman of the U.S. Federal Deposit Insurance Corporation (FDIC) at the time. After being saved, the largest banks' lending fell; the whole banking system's loan/deposit ratio fell to a historically low 70% and the percentage is still today in the low 70s. The largest banks' derivatives exposures are on average 30% larger than they were in 2007. Total bank lending remains below the level of six years earlier. In the EU bank lending is still falling.

Here is the situation today as described by U.S. FDIC Vice Chairman Thomas Hoenig, an advocate of full bank separation on the Glass-Steagall principle, in a May 6, 2014 speech at the Boston Economics Club: "Compared to 2008, the largest financial firms today are in most instances larger, more complicated, and more interconnected. The eight largest banking firms have assets that are the equivalent to 65% of GDP. The average notional value of derivatives for the three largest U.S. banking firms at year-end 2013 exceeded \$60 trillion [each], a 30% increase over their level at the start of the crisis.

"The largest banking firms also have tended to increase their complexity. They have used the safety net subsidy to support their expansion across the globe. They have further combined commercial, investment banking, and broker-dealer activities. There have been no fundamental changes in the wholesale funding markets, in the reliance on bank-like money market funds, or in the use of repos, which all are major sources of volatility in times of financial stress.

"While these largest firms highlight that they have added capital to strengthen their balance sheet, they

remain excessively leveraged with ratios, on average, of nearly 22 to 1. The remainder of the industry averages below 12 to 1. Thus, the margin for error for the largest, most systemically important financial firms is nearly half of that of other far less systemically important commercial banks and financial firms.”

The condition of the largest banks in London and the European Union is much worse than what Mr. Hoenig is describing for the U.S.-based banks. The trans-Atlantic banking system is headed for a general crash despite (and because of) the endless zero-interest-rate money-printing of the central banks.

Against intense opposition from Wall Street and the Obama White House, legislation to restore the Glass-Steagall Act now has bipartisan support in both Houses of the U.S. Congress: Senate bills S.1282 (prime sponsors Senators Elizabeth Warren, John McCain, Angus King, and Maria Cantwell, with six others) and S.985 (Sen. Thomas Harkin); and House bills HR.129 (prime sponsors Representatives Marcy Kaptur and Walter Jones, with 84 others) and HR.3711 (prime sponsors Reps. John Tierney, Steven Lynch and Walter Jones, with 10 others).

All of the various “alternatives to Glass-Steagall,” in which regulators attempt various schemes of “ring-fencing” divisions of banks, have the same fatal disability, and will not produce sound commercial banking. In all the “alternatives,” including the much-invoked and disastrously unworkable “bank bail-in” schemes, the large bank holding companies (or whatever agencies try to resolve them into when insolvent) remain responsible for capitalization of all their operating subsidiaries. This capitalization either is taken from the commercial bank division, in violation of the ring-fencing scheme; from a large public taxpayer bail-out in a crisis; or, in the “bail-in” scheme, from both. The “ring-fences” are low ones, and allow holding company

senior managements to continue to use deposit bases for securities and derivatives speculation. “Bail-in” simply attempts to expropriate creditors’ assets and depositors’ money, and besides being chaotic and actually potentially triggering runs on banks, it represents deadly economic austerity.

Only Glass-Steagall separation and regulation of commercial banks provides for depository institutions whose purpose is lending and participation in national banking credit issuance, which are Federally chartered and regulated, and which are barred from any significant exposure either to securities or derivatives markets.

If the Glass-Steagall principle is restored in the U.S. banking system, the Wall Street bank holding companies will have to split off their myriads of investment banks, broker-dealers, and securities investment vehicles, most of which will probably face bankruptcy because they are deep in speculations that require credit backing from Federally insured commercial bank units,



and from Federal Reserve money-printing, in order to sustain their high-risk investment models. The commercial banks themselves will have to make loans to business, industry, households, and local government in order to earn profits.

The real economy will lose nothing from those bankruptcies; what will be exposed, is how little real credit there actually is in the economy. A national source of credit will be required to drive the major investments in infrastructure “great projects” and economic productivity. But the separation and protection of the commercial banking system under Glass-Steagall principles will put commercial banks in a position to participate vigorously in national credit creation, including the discounting of their loans to companies and agencies participating in important national and international projects.

II. Generating National Credit for Productivity Projects: Examples From the American Credit System 1652-1945

The U.S. national credit system, called the “American System” in the 19th Century, but essentially abandoned by American leaders since the end of World War II, facilitated infrastructure and industrial development in each historical period of nation building. The period 1865-90 in which the United States emerged as the world’s leading industrial nation, followed the Abraham Lincoln Administration’s adoption of “Greenback” national credit issuance; investment of that credit into rail, steel, coal, and agricultural infrastructure; and strong tariff protection of national industries—the three fundamental principles of the Hamiltonian, or “American System.”

EIR historian Anton Chaitkin has shown (“Leibniz, Gauss Shaped America’s Science Successes,” *EIR*, Feb. 9, 1996) that in fact *each* surge in industrial growth and scientific/technological revolution in U.S. history, has been associated directly with the implementation of those principles by American governments. Senator and Secretary of State James G. Blaine’s two-volume history of the United States in the 19th Century 125 years ago demonstrated exactly the same conclusion.

The establishment of the fully sovereign nation-state of the United States in 1789-96, and the establishment of the credit system, were one and the same. Alex-

ander Hamilton, U.S. Treasury Secretary during George Washington’s Presidency, created a system that closely coordinated the relationship of public credit with the intention of national government to follow through on the actions for which the credit is emitted. The more the nation’s government is committed to see through the creation of credit, and properly exercises its complementary necessary powers of finance, trade regulation, and taxation, the better certainty there is on that credit, and the more is credit between parties able to serve as a currency and means of payment.

John Winthrop, Jr.’s Plan 1663-1681

The Massachusetts Bay Colony in the 17th Century created the first currency sufficient for payment and trade, in opposition to its British royal governor. The “lack of a medium of exchange” with which to make the needed transactions for building up the economy of Massachusetts Bay and the early Colonies was a constant refrain. From John Winthrop Jr. in 1663 to Benja-



The Pine Tree Shilling, shown here, was created by the Massachusetts Bay Colony to promote physical economic development.

min Franklin in 1729, and after, numerous authors wrote of the currency problem. Sufficient currency increases manufacturers, trade, immigration, and foreign returns; keeps interest low; and leads to general improvement. A shortage of currency increases debts, prices, and interests, while property declines in value and trade is stunted.

In 1652, the Massachusetts Bay Colony coined its own money, the “Pine Tree Shilling,” to create a sufficient currency with which to trade amongst themselves. This was attacked by the King multiple times in the 1660s-1680s.

In the same period, there were multiple designs by the Winthrop family and others for a means of payment that did not require silver or gold, but would be based

on credit. In 1663, John Winthrop Jr. wrote a plan entitled “Some Proposals Concerning the Way of Trade and Banks without Money,” and sent it to the Royal Society. Winthrop wrote that his plan would “greatly advance commerce and other public concernment for the benefit of poor and rich,” and would answer all the ends which “banks of ready money” in other parts of the world attained. While it would involve land, he wrote that it would not take the land out of use.

The 1686 Bank of Credit

Drawing on these earlier writings and attempts, a more developed plan for a “Bank of Credit” was approved by Wait Winthrop, Adam Winthrop, and other leaders of Boston in 1686. The details of the bank plan were written out by John Blackwell a year later.

“Bank-bills of Credit,” signed by several people “with good repute” and emitted on the basis of the mortgages of lands or goods, would be voluntarily accepted by people and business as “ready moneys.” The bills would have “at least equal advantages with the current money or coin, of any country.” There was no gold or silver reserve in the Bank.

Those who had real wealth and capital could now turn it into a source of credit, instead of requiring money. Weavers could pledge their mills for bills of credit with which to increase their supply of wool; merchants could pledge their land and receive bills to buy additional wares and other commodities from the manufacturer; shopkeepers could mortgage their shop and receiving bills to buy goods from merchants; a mine owner could pledge his mine for bills to obtain additional capital to employ laborers to work the mine. The mine owner could pay interest on the bills in iron, and other tradesman could pay similarly with the value of their goods. The 1687 document presenting the plan concludes:

By [the Bank], the trade and wealth of this country [will be] established upon its own foundation, and upon a medium or balance arising within itself, viz., the lands and products of this country; and not upon the importation of gold or silver or



This is the reconstruction of the forge and iron mill at the Saugus Iron Works in Massachusetts, which, in a matter of years in the 1660s, became more productive than iron producers in England.

the scarcity or plenty of them, or of anything else from foreign nations, which may be withheld, prohibited or enhanced, at their pleasures.

Our own native commodities will thus become improved to a sufficiency for our own use (at least) and thereby afford a comfortable subsistence to many ingenious and industrious persons amongst us, who know not at present how to subsist: and this will draw over more inhabitants and planters. It will not be in the power of any, by extortion and oppression, to make a prey of the necessitous.

The Bank of Credit of 1686 was not fully established due to the influence of the King’s representative Edmund Andros and the takeover in England by William of Orange.

Cotton Mather 1690-1720

In 1690, Bills of Credit were emitted in Massachusetts as a means to pay soldiers and for supplies. Cotton Mather described in a paper entitled “Some Considerations of the Bills of Credit, Now Passing in New England,” that although the colony did not have silver, they could have credit, which would allow the colonists to buy articles just as readily if they were to accept them.

Mather wrote that the security of the paper money was “nothing less than the credit of the whole country.” The country makes good the credit through its industry, and its inhabitants are “the security of their public bonds.”

The taxes later collected were payable in the bills of credit emitted by the colony, and this cycle is essential for issuances of sound currency. “The Credit conveyed by these Bills now Circulates from one hand to another as men’s dealings are, until the Publick Taxes call for it.” Then the government could put it back into circulation again.

While these bills of credit were first issued for emergency endeavors, such as the Colony’s military campaign of 1690, they were later used for general economic purposes—thus similar to the Lincoln Administration’s and Congress’ “Greenback” issuances of 1861-65.

In 1716, an unnamed author, probably associated with Cotton Mather, proposed a Greenback policy in “Some Considerations on Several Sorts of Banks.” The author recommended the government should “emit large sums” for “what may be beneficial and of a general good,” specifically, infrastructure and industry. The sums were not only to supply the ongoing scarcity of cash, but would “also lay certain and stable foundations of increasing the produce of the country; which is the interest and wisdom of all nations.”

The government would pay on credit to a board of trade to lend for “construction of public works and encouragement of industries.” They proposed “lending large sums upon good security, without interest for some term of years” to pay for a bridge and cutting a canal for more speedy passage of vessels. A few hundred committed by the government to set up an iron refinery would save the country thousands in a year, the author wrote. The government was expected to take actions to increase the power of the colony. As earlier, the bills would later be accepted to pay taxes to the government.

As in the 1680s, this bank, and similar ones proposed in 1720 and in 1740, were prevented by opposition from the British crown. However, after 1690, bills of credit continued to be issued throughout the colonies. During 1710-1740 the government of Rhode Island successfully “emitted bills of credit to supply the merchants with a medium of exchange, always



Hamilton succeeded in establishing the Bank of the United States, which converted the mass of Revolutionary War debt into a base of credit for the prosperity of the nation. Here, a drawing of the First Bank of the United States, which was located in Philadelphia.

proportioned to the increase of their commerce,” putting their navigation industry ahead of the other colonies.¹ Some of the attempts at currency issued by the governments were successful, while others were failures, depending on how regulated they were, and for what purposes.

Multiple attempts, in 1741, 1751, and 1764, were made by the crown to end the use of all colonial bills of credit. Benjamin Franklin told the parliament in England in 1764 in response that “colonial legislatures [must] be empowered to issue any amount of paper money required for revenue, trade, business, agriculture, to be lent on collateral security, deficiencies guarded against by taxes, and interest on the loans to be used in meeting current expenses.”

The 1781 National Bank

Alexander Hamilton addressed the financier of the Continental Congress, Robert Morris, writing, “Tis by introducing order into our finances—by restoring public credit—not by gaining battles that we are finally to gain our object.”

Hamilton hypothesized that the solution to the economic crisis of the colonies lay in uniting the influence and interests of individuals in trade, commerce, and industry with the resources and credit of the government, by the joint subscription to a national bank. The result

1. *Records of the Colony of Rhode Island*; Providence, 1860, p. 12.

was the “Bank of North America,” chartered in 1781. The alternative to the depreciated continentals it presented and the national unity it signified saved the finances of the country and upheld the credit of the Congress through to the end of the war in 1783.

Hamilton demonstrated a central principle in successful national banking, that no credit currency could be substantial, or durable, which does not unite the resources and growth of the real economy with its establishment and circulation. However, the lack of union of the states and insufficient powers of the Congress did not provide the Bank with proper funding to establish a national economy or uphold federal credit. Without the powers to regulate trade, impose federal taxes, regulate the currency, and coordinate the payments of the debts, there could be no secure funds to establish credit, increase national productivity, or fund the National Bank.

While it was not fully successful, for reasons specified, the bank demonstrated an important principle. What had been defeated throughout the preceding century in 1686, 1720, and 1740 for lack of authority and independence from the crown, was now possible: a sufficient payment system based on the productive capacity of the nation, not determined by artificial restraint.

The System of Public Credit

In 1789, from the standpoint of the gold and silver that had been borrowed for the war, the new republic was bankrupt and had no possible way within the existing system to settle its accounts. By employing the powers of Congress won through the new Constitution, Hamilton implemented the system of public credit he had been developing for a decade.

As his first step, he transformed the seemingly impossible foreign, national, and state debts, and the interest rates on them, into a means to unify the resources of the nation toward one goal through the power of federal revenues. The foreign debt would be refinanced—restructured—and the state debts would be assumed and united with the domestic debt, reissued, and subsequently restructured as new debts of a National Bank. However, in accord with Hamilton’s “fundamental maxim, in the system of public credit of the United States,” in the same Act of Congress that created these newly transformed debts, the means of extinguishment were built in, initiating the powers of Congress related to economic growth.

Hamilton’s recommendations on public credit were passed into law in three Acts of Congress, on August 4,

9, and 12, 1790. New loans for the full amount of the domestic and state debts were taken out, with subscriptions to them made with the old debt certificates. The subscribers received new U.S. debt certificates, with an interest payment on them guaranteed with a permanent appropriation, written into the same August 4 Act that authorized the new loan and state assumption. The funds—Hamilton’s “means of extinguishment” of the loans—would come from new protective tariffs and excise taxes passed immediately thereafter. A special fund from the revenues of the new U.S. Post Office was set aside to prevent speculation on the public debt and increase its value.

By ensuring the value of the public debt certificates, they were converted into a real medium of commerce, a vast capital for trade, and basis for a new credit currency, giving life and activity to business. The *funded* debt was now a representation of the new power of government in action, and its value rose from \$15 million to \$45 million by the end of 1790. Hamilton’s actions effectively created a capital resource of \$30 million for the economy.

Its value would continue to rise as the strength of the nation’s economy increased, and likewise, the increase of the economy was made possible by the creation of the new source of capital, in the form of the funded debt.

The Public Credit Bank of the United States

The step that cemented the credit system was the Bank of the United States, chartered by Congress in 1791 according to Hamilton’s next recommendations.

While not circulating as money itself, the capital that Hamilton had created by the funded debt served as the basis for a national currency. Now it could be used to form an enormous (for the time) capital of a national bank, large enough to serve the credit needs of the entire economy. Those who had received new certificates of the public debt could use them to become subscribers to the capital stock. Each share was bought with one part specie, three parts public debt. The government went \$2 million further into debt to increase the capital of the bank by one-fifth, which created a sufficiently large circulation. The bank was able to issue notes up to its capital of \$10 million, which consisted mostly of the public debt of the United States.

The Bank’s main economic functions were the creation of a medium of exchange in which credit could be transferred between parties in commerce, manufactures, agriculture, and industry, and also, directly lend-

ing its credit for the same purposes, including economic infrastructure.

The Bank increased the value of the public debt. The act of subscribing to the Bank's capital with public debt securities, increased their value, and the assurance and facilities it provided to the government increased them still further.

Hamilton's Bank was antithetical to the Bank of England, because the National Bank was prohibited from buying and selling public debt, which was the Bank of England's main purpose; also, while the Bank of England's commercial role was secondary, commercial lending was the main function of the Bank of the United States. Its other functions and benefits included serving as a depository for government revenues, which provided an additional source of credit available at all times until appropriation; creating a unified medium in which taxes could be dependably collected, and enhancing that dependability by loaning to taxpayers in lieu of their possession of money, as in the case of importers; and relieving the nation of the cost of a currency of fluctuating value between states. Hamilton summarized the effects of the system in his final *Report on Public Credit* in 1795:

Public Credit ... is among the principal engines of useful enterprise and internal improvement. As a substitute for capital, it is little less useful than gold or silver, in agriculture, in commerce, in the manufacturing and mechanic arts.... One man wishes to take up and cultivate a piece of land; he purchases upon credit, and, in time, pays the purchase money out of the produce of the soil improved by his labor. Another sets up in trade; in the credit founded upon a fair character, he seeks, and often finds, the means of becoming, at length, a wealthy merchant. A third commences business as manufacturer or mechanic, with skill, but without money. It is by credit that he is enabled to procure the tools, the materials, and even the subsistence of which he stands in need, until his industry has supplied him with



A drawing of work building the Erie Canal, in the period of the functioning of the Second Bank of the United States.

capital; and, even then, he derives, from an established and increased credit, the means of extending his undertakings.

The Bank of the United States credit system put private credit in its proper place, inducing investors to serve the ends of public interest. The Bank's capital was four-fifths subscribed to and owned by private citizens, holders of the restructured United States debt, and it was also privately directed; however, its private status was a means to keep it sound, and was secondary to its nature. By its purpose and functions, its main beneficiary was the nation as a whole. As Hamilton explicitly states in his *Report on the National Bank*, when speaking of the old constitution of the 1781 Bank of North America:

The interest and accommodation of the public ... are made more subservient to the interest ... of the Stockholders, than they ought to be. It is true, that unless the latter be consulted, there can be no bank ... but it does not follow, that this alone to be consulted, or that it even ought to be paramount. Public utility is more truly the object of public banks, than private profit. And it is the

business of Government, to constitute them on such principles, that while the latter will result, in a sufficient degree, to afford competent motives to engage them, the former be not made subservient to it.

The bank notes now issued by the Bank as currency, were made a legal tender and “receivable in all payments to the United States,” and could be redeemed for specie if desired, “payable on demand, in gold and silver coin.” Because the system was designed to prevent the necessity for this redemption, a circulating currency was created of a magnitude proportional to the active capital of the country, e.g., manufactures, agriculture, and commerce. There was no need to trade in that capital for specie, in order to exchange goods.

Hamilton redefined the meaning of debt within a functional nation-state economy. Rather than a monetary burden to be settled in saved revenues, and contributing to scarcity, the public debt was made an asset, and signified the process of unifying the resources of the national economy.

And as the power of the productive economy grew, particularly in industry, so, reciprocally, did the Bank’s value of capital and the general value of the public debt. All of this would be an increased capability of lending for commerce, and increasing the means of payment in the economy available for trade.

The Credit System Elaborated

After the National Bank’s charter was allowed to lapse in 1811 under Jeffersonian influences, Hamilton’s credit system was revived by Nicholas Biddle, Mathew Carey, and President John Quincy Adams with the Second Bank of the United States, particularly during 1823-36. Under Hamilton and Biddle, who was chairman of the Second Bank, the system was managed to increase the number of transactions occurring on credit rather than liquidating wealth for the present. Transactions were settled by the future resources generated, which gave a credit to the initial borrower. Credits and debts were coordinated according to the cycles of production to defray the time of payment, till each party had sufficient credit to balance their debts. This allowed productive surpluses to be absorbed into future growth and productive investment.

The Bank directly intervened into the economy, not by upholding inflated securities, but by assisting the productive economy or the needed infrastructure proj-

ects with capital, in order to maintain the surplus productive capacity.

The protection for manufacturing and support for internal improvements that Hamilton had called for did not come about until the 1820s, under President John Quincy Adams. The major canals, new railroads, and new industries were made possible by federal credit and direct loans and other indirect functions of the Bank. Adams used the nation’s stock in the Bank for financing large projects, and under Biddle’s direction the Second Bank of the United States loaned and subscribed directly for nearly 50% of all the capital raised to construct the largest canals, which made possible the transport of anthracite coal for the iron industry.

Under the regulation of the credit system under Biddle, the currency bore a proper relation to the real business and exchanges of the country. As more agricultural land was developed, as more manufacturing facilities became established, and as more transportation networks for produce and coal for manufacturing facilities were completed, the amount of bank credit that could safely be put into circulation through loans and discounts increased in proportion.

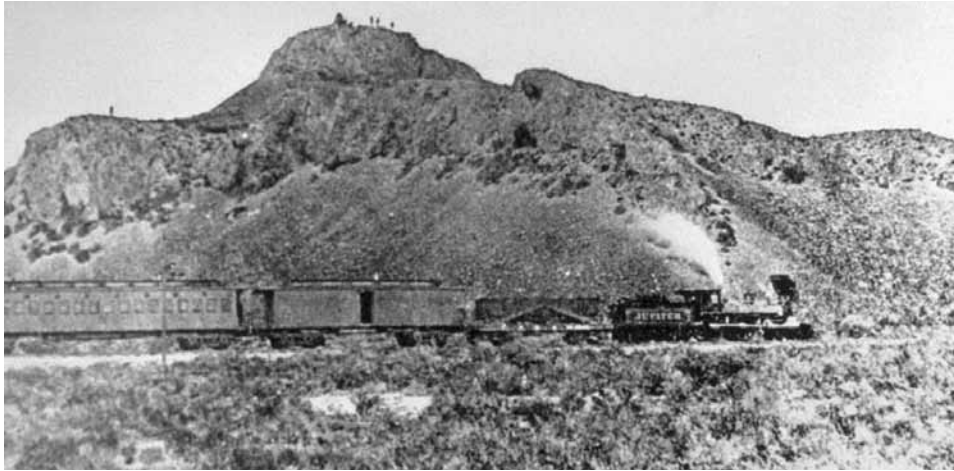
Lincoln’s System of Public Credit

New York banks and the British East India Company opposed the Second Bank of the United States and the internal improvements and domestic manufactures it facilitated. Those interests were politically successful in taking down the U.S. credit system by means of the Jackson and Van Buren administrations. However, Abraham Lincoln, a longtime supporter and advocate of the system of national credit of John Quincy Adams and Alexander Hamilton, revived this system when he began his Presidency.

The first step that Lincoln took was the passage of a strong tariff, the second Morrill Tariff, in the summer of 1861. Hamilton had established that protection of manufacturing is essential for a sound banking and credit system, not only because it generated revenue (customs duties) to fund and support national credit, but also because the specie that was kept on reserve could not be maintained when the country ran a negative trade balance, because imports had to be paid in specie.

Lincoln’s next measure, the policy and issue of “greenbacks,” then created the medium to revive and accelerate the machine of domestic production and commerce.

At the end of 1861, after buying (at a very high in-



Library of Congress

Under President Lincoln's de facto national banking system, the U.S. built up its infrastructure and industry enormously. One of those major accomplishments was the Transcontinental Railroad, which was completed in 1869. Here, the train carrying one of the principals to the Golden Spike ceremony.

terest rate) an initial round of U.S. Treasury bonds to get the Union mobilized for the Civil War, New York bankers blocked with British and French lenders to stop all revenue streams to the Treasury. These banks suspended payments of gold owed to those who had made deposits in their banks, ceased their purchase or acceptance of government bonds, and blocked foreign loans. The government responded by taking control of the currency, and issued its own U.S. Treasury notes—"greenbacks"—as a circulating medium of payment necessary for commerce and war. The Legal Tender Act, February 25, 1862, read, "To authorize the issue of United States Notes and for the redemption or funding thereof, and for funding the floating debt of the United States." Despite widespread doubts in Congress, even in Lincoln's Republican Party, the greenback credit-issue policy was as successful as the Hamiltonian national bank policy on which it was based.

Almost one-half of the circulating currency became greenbacks. The Lincoln Administration increased government spending by 300% by creating \$460 million in greenbacks during the Civil War. This legal tender was used, in the first instance, by the Treasury to pay soldiers, contractors, teamsters, manufacturers of weapons and uniforms, farmers, etc. Greenbacks could be used by investors (along with state banks' notes) to purchase bonds sold by the Treasury. From October 1862 to January 1864 the Treasury Department oversaw the selling of more than \$500 million in bonds to individual citizens, enough to finance the greenbacks

that it issued. And the greenbacks were used to pay the war taxes on imports, industry, and high (more than \$800 per year) incomes.

The bonds sold were largely part of the next action taken by the Lincoln Administration, the National Currency and Banking Acts of 1863 and 1864, which, united with the greenbacks measure, and a national funding system, built a system of national banks on the same principle of Hamilton's Bank of the United States. State banks were rechartered as national banks on the basis

of the requirement "to purchase United States stocks to hold as securities for their circulating notes."² The U.S. bonds purchased by the banks were deposited in the Treasury, and the newly chartered national banks received greenbacks in return, upon which to lend.

Just as the Bank of the United States and its branches had had a large portion of its capital stock in the form of public debt, under Lincoln's Presidency greenbacks and bank notes now circulated on the basis of the public debt, which the nationally regulated private banks purchased and held in the Treasury. The United States bonds, upon which the greenbacks were issued to national banks for lending, were 20-year annuity bonds, paying a dependable interest, but which were not tradable and were callable only by the government prior to their maturity. As with Hamilton, it was the strict regulation of the terms of the public debt by the government that made the credit which circulated upon that debt a reliable medium for growth.

The greenbacks were safely leveraged on the basis of the 20-year bonds, which were held as security, and which themselves were funded by tariffs and taxes. Import duties far exceeded the interest to be paid out on the bonds, in specie. This surplus specie would be a source to redeem any greenbacks or fund other bond issues.

Lincoln economist Henry Carey described the simi-

2. Wesley Mitchell, *The History of Greenbacks*, 1903, University of Chicago.

larity of Hamilton and Lincoln’s systems, stating, “The U.S. Bank [of Hamilton] did not give us specie, [rather] its notes were current almost on the same fundamental hypothesis, which has given useful circulation to the Legal Tender issues [of Lincoln].”³

Following Hamilton’s maxim for public credit, Lincoln’s Treasury Secretary Salmon Chase funded the public debt and maintained the value of greenbacks through import duties and by implementing the greatest array of internal revenue duties in the nation’s history to that point, through an act in 1864 titled, “To provide internal revenue to support the government and to pay interest on the public debt.”

Lincoln’s issue of Treasury notes as currency had been advocated by Hamilton as an addition to National Bank notes, but on a smaller scale, in 1798. In a letter to Treasury Secretary Oliver Wolcott, Hamilton cited the difficulty in collecting taxes under a “defective circulation” and the unreliability of sources of loans from banks alone. To keep the circulation full and to “facilitate the anticipations which government” will need on occasion, he said he had “come to the conclusion that our Treasury ought to raise up a circulation of its own ... by the issuing of Treasury notes payable, some on demand, others at different periods from very short to pretty considerable—at first having but little time to run.”

After the Civil War and Lincoln’s death, Lincoln’s economic advisor Henry Carey, of the Philadelphia group of leading industrializers, made clear in numerous writings that the greenback issues had launched a great rate of industrial progress in the United States. But Carey warned the Treasury’s contraction of greenback circulation from 1866 onwards was the wrong direction for U.S. national credit. Rather, Carey held that with a dozen states reincorporated into the Union and the nation expanding to the west, the greenback issue should have been expanded much beyond the \$460 million circulated during the war. Carey described the greenbacks as a “non-exportable” and reliable internal



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FDR’s recovery plan depended heavily on infrastructure construction, financed by such agencies as the TVA and the Reconstruction Finance Corporation. Here, construction work at the TVA’s Douglas Dam in Tennessee, June 1942.

source of credit which was debt-free for its domestic users. With the greenback circulation instead contracted to \$330 million by the end of 1867, American businessmen, farmers, and artisans became more dependent on greater amounts of debt, and the United States’ general industrial expansion again became dependent for credit on European banking centers and on the use of gold. When the United States “resumed specie currency” in 1879, Americans kept their greenbacks and turned almost none in for gold certificates, proving Carey right that their quantity was much too small to meet the demand for circulating credit. Three decades later, in the debt crisis and panic of 1907, President Theodore Roosevelt considered expanding greenback circulation with a large new issue; he hesitated, however, and let Wall Street bankers take the initiative from him with the 1908 Aldrich Act, allowing private banks to issue “U.S.” currency and leading to the Federal Reserve System five years later. The U.S. Treasury has not issued national credit since.

Franklin Roosevelt’s RFC

Franklin Roosevelt’s makeshift national bank took the form of an expanded Reconstruction Finance Corporation (RFC), which famously loaned \$50 billion to every sector of economic activity between 1934 and 1955.

3. Henry Carey to Treasury Secretary McCulloch, December 1868.

The RFC approximated the Hamiltonian credit system with great success throughout the 1930s, where any corporation, industry, or agriculturalist possessing a productive character was able to obtain credit on reasonable assurance of the loan being repaid, at the discretion of the lender. Growth occurred in a structured way because the process of making good on the credit depended on the productivity increases achieved.

Industry and agriculture were saved from unnecessary bankruptcy, and skilled labor and much needed national enterprises were maintained. Instead of allowing prices to be determined by the random interaction of production cycles or the manipulation of Wall Street, the credit of the RFC offset the economic cycles of the private financial sector.

The RFC operated separately from the authorizations and appropriations of the Federal budget, borrowing from the U.S. Treasury according to limits set by Congress. All loans made through the RFC, as loans, and not appropriations, were repaid, not only with a financial profit to the Treasury, but more importantly, with a productivity increase for the nation as a whole not measurable in dollars, not to mention the profit savings in human and productive capital that would have been lost had the loans not been made.

Under Franklin Roosevelt, the RFC was the embodiment of directed credit and operated almost exactly as the Banks of the United States had under Nicholas Biddle and Alexander Hamilton, increasing the overall indirect and direct long-term credit in the economy, itself directly lending to the economy on non-restrictive terms. The striking differences were that it was not the chief depository institution for United States tax revenues, and thus could not lend them out as a source of credit to banks, industries, and other corporations, as had the Bank of the United States. It also did not receive private subscriptions to its capital stock. The RFC was acting in an environment which included the structure of the Federal Reserve Banks, and therefore was not as efficient as the Bank of the United States, which was acting as the chief institution and the key mover in the banking system.

President Roosevelt's 1934 proposal to create national credit banks for industry, directly *within* the Federal Reserve System, and which would act as depositories for U.S. tax revenues, was blocked in the Congress.

III. International Credit Agreements for Development

The recent critical emergence of two new international development banks for non-austerity-conditioned, infrastructure-specific lending—the BRICS New Development Bank and the Asian Infrastructure Investment Bank (AIIB) initiated by China—open up potentials for credit agreements not seen since the Bretton Woods Conference. The critical great projects or “infrastructure platforms” proposed here require cooperation among several nations, including credit cooperation among the major economic powers providing the bulk of capital goods and industrial products for these projects—but *not supranational* direction. The United States and European economic powers led by Germany easily can, and need to, participate in expanding these banks toward the trillions of dollars-equivalent in new infrastructure credits actually required immediately. But they must give up their “green” hostility to the most productive scientific advances and technologies, in order to do so.

The example of the Bering Strait Tunnel crossing and high-speed rail linkage of Eurasia and North America, now seen as increasingly urgent by China and Russia in particular, or the large-scale water-management breakthrough necessary to stop desertification of western North America, illustrate the general principle. The agreements among the countries involved on joint funds or agencies to carry out these great projects, require agreement on issuing credits over the long term and at low rates of interest. Moreover, these nations remain sovereigns with their own national credit systems, so that the long-term credits are required in several currencies with relatively stable parities over the long term, together with currency-swap arrangements among central banks. A current negative example of this requirement is the serious disruption of trade and development projects in Kazakhstan due to the abrupt drop of the Russian ruble's value in 2014 under increasing sanctions.

Over a period now of more than three decades, economist Lyndon LaRouche and his associates have proposed a return to a New Bretton Woods system of agreements that would return to the credit, currency, and banking arrangements among nations of the post-War period, as exemplified by the credit relationship between the United States with its Marshall Plan and



National Archives

The financing of the “German miracle” of the post-war era followed along the lines of FDR’s Reconstruction Finance Corporation, using an institution called the Credit Bank for Reconstruction (KfW), oriented to real physical production.

Germany with its reconstruction re-financing institution, the Kreditanstalt für Wiederaufbau (KfW).

The grant and loan aid centered in the Marshall Plan, while brief (1947-51) and small (roughly \$125 billion in current-dollar terms), had a relatively powerful impact on post-War European recovery and development because it was firmly embedded in the anti-speculative Bretton Woods system. The aid was in the form of (1) dollar credits, which due to capital controls were *not* re-exported to pay European countries’ war and other foreign debts (despite attempts by Great Britain to break these controls and do just that); (2) goods, particularly capital goods, representing capital goods credit and investment within the United States, and which were paid for in marks or other European national currencies; and (3) direct dollar aid, used for purchases such as imported construction materials, capital goods, and food. There was no attempt to “integrate the nations back into international capital markets,” which would have triggered capital flight and rapid devaluations. The European nations “paid for” the goods and loans by creating equivalent “matching” credit funds in

their own currencies, used to generate increasing internal national development credits (the KfW being by far the most successful, high-impact, and long-lasting in this policy). The European Cooperation Agency, which served as a small international development bank under the European Recovery Program (Marshall Plan), was dissolved in 1958, and by that time all the European nations were integrated into the Bretton Woods system; their currencies were convertible at fixed rates. There was no significant use of dollars by these countries except for purchasing U.S. exports and settling trade imbalances; bank accounts in foreign countries’ currencies were prohibited under Bretton Woods except for trade purposes.

With imperfections, the principle of international exchange of development credits was there. The KfW played the same internal development-credit role in Germany, relative to credit initially generated from the United States, as Alexander Hamilton’s first United States Bank had played for U.S. development, relative to the European banks which heavily invested in Treasury Secretary Hamilton’s Bank in 1791. Hamilton’s design of the Bank, its sinking funds, and the new tax revenue which supported it, prevented its invested capital from flowing immediately back out to pay the relatively huge debts of the then-bankrupt United States, and directed it instead, into development including of canals, roads, and iron industries. In Henry Carey’s phrase, the circulating currency created by Hamilton’s bank was “non-exportable,” and so was the credit created in Germany by the KfW in the post-World War II period.

Benjamin Franklin and Alexander Hamilton, and later Mathew and Henry Carey, explicitly insisted on *protection* as a feature of national banking, to prevent the newly invested capital of the bank from being rapidly dissipated. For example, without regulations to protect manufacturing and thereby reduce imports, which require payment in real money (then specie, today dollars), the strain on the national bank and its branches for such payment will break the system.

The Bretton Woods system was broken up fundamentally under the impact of the Eurodollar markets, which first appeared in the later 1950s in the form of London (and offshore London) banks creating accounts for U.S. dollars which paid significantly elevated interest rates, accounts not for trade but for purposes of investment in the international securities



The destruction of the Bretton Woods System in August 1971, by the likes of officials like George Shultz (shown above), went a long way to destroying the basis for financing long-term development globally.

markets, sovereign debt markets, and later, for *foreign exchange speculation*. This was allowed by regulators to occur and expand exponentially. By 1979 two-thirds of all U.S. dollars were circulating outside the U.S. economy—“Eurodollars,” “petrodollars,” etc.—and the resulting inflation had detached the dollar from the gold-reserve basis and broken the Bretton Woods system of fixed currency rates. The resulting “floating exchange rate” regime also seriously negatively impacted the International Bank for Reconstruction and Development (IBRD) (i.e., the World Bank) as a credit mechanism for development, because the capital contributions and the loans of that Bank were overwhelmingly in U.S. dollars and loans had to be repaid in currencies usually devaluing against the dollar.

The United States, China, Russia, and Japan all possess the ability to issue national credit and currency in large amount for development purposes—the United States because of its large, funded, and universally accepted debt that can be converted to development credit by creating a national bank for large projects; the other three nations because they possess large net foreign exchange reserves on which to base national credit issuance through government banks. The new international development banks provide the starting vehicles. China already does this; it has accumulated more than \$3.5 trillion in foreign reserves through trade and issued *a multiple of this* in currency emission through state banks since 2007. If a fraction of this emission has fos-

tered real estate and commodity bubbles (aided and abetted by major British and Hong Kong banks and other financial firms), the great majority has created infrastructure, productivity, and growth. If linked to the emissions of other great powers’ national banks for specific great projects, China’s national development credit will be safer from the speculative obsessions of the world’s (particularly London’s and Hong Kong’s) investment banks and hedge funds. The United States Congress, in any given month, can create a *Third* U.S. National Bank with \$1 trillion capital or more, capitalized by holders of United States Treasury debt securities investing them in such a bank in exchange for stock or long-term debentures of the Bank; and issue international project credits through this Bank. Or, the United States can issue a comparable sum of Treasury notes (“Greenback” currency), backed by special long-term and non-callable Treasury bond issues, for the same purpose of international project credit.

The fifth great economic power, India, has created its India Overseas Investment Corp (INOIC) on the lines of a sovereign wealth fund to lend financial muscle for securing access to overseas natural resources. INOIC will not, however, be India’s sovereign wealth fund in the conventional sense. It will be patterned on the government’s holding arm and registered with the Reserve Bank of India as a non-banking financial institution.

The company will raise funds through rupee bonds of 15-20 years with sovereign guarantee. State-run entities, banks, and financial institutions will subscribe to these papers using their surplus funds. Sovereign guarantee will allow the interest rate to be set marginally higher than government securities. The bonds can also be made part of banks’ statutory liquidity ratio (or minimum cash that banks have to keep overnight) to help them subscribe. INOIC will not borrow from the Reserve Bank of India.

India thus can be ready to participate in the BRICS New Development Bank and the new AIIB, as it develops its export capabilities particularly with the other Asian nations.

For an International Development Bank (IDB) to be capable of driving the great projects discussed in this report, some among these great Eurasian economic powers, hopefully in cooperation with the United States, must issue credits in their own currencies to cap-

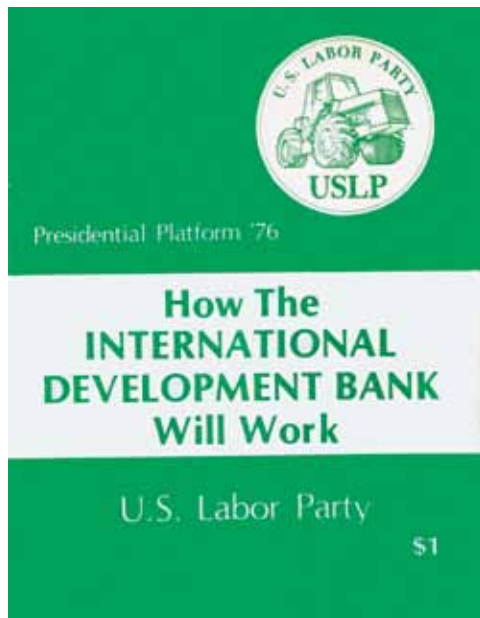
italize an IDB, created by treaty, with several trillion dollars equivalent in capital, so that it becomes the ultimate funder and initiator of investments in the great projects.

One or more sovereign wealth funds of other nations may also invest capital in the IDB, but the credit issued to it by the cooperating economic powers must define how it is capitalized—by 20- to 30-year debenture investments of an “annuity” type, paying a dividend but callable only by the Bank itself should it decide to reduce its capital for any reason or to accept other investors. This is the same principle on which national credit banks, able to invest in the IDB, will be created by the United States or other investing nations, insofar as their credit for investment is not created on the basis of trade surpluses and foreign reserves.

In making equally long-term loans for the development of projects in individual nations, the IDB will book a credit with the national development bank of the nation involved, which will use that as the basis to issue credit in its own currency to authorities and enterprises carrying out the work. By design of the national development banks in the borrowing nations, and by capital controls, this currency too must be “non-exportable” except for trade.

The borrowing nations must establish not only capital controls, but more importantly exchange controls, to ensure that no IDB credits are diverted to flight capital or “carry trade” securities investments, and that their use for development projects pre-empts any attempted use for repayment of other sovereign debts of countries receiving credits.

Furthermore, it is necessary to the effectiveness of the IDB’s development credit issuance that over-indebted nations with sovereign debts which have been imposed on them illegitimately, in whole or in part, be able to place the illegitimate debt in moratorium, replacing it with much longer term debt if agreements cannot be made to write down, or write off, such debt. Otherwise the borrowing nations’ fiscal burden of for-



Lyndon LaRouche first proposed the framework for a new international credit system in 1975, with his plan for an International Development Bank. That then became a major part of his presidential campaign platform in 1976.

eign debt repayment will harm their ability to participate in the IDB’s credit issuance for vital great infrastructure projects.

This IDB can be a means of debt reorganization for over-indebted nations or groups of nations requiring IDB credit for great infrastructure development platforms.

Many nations of the world labor under unpayable, and wholly or partially illegitimate debts resulting from (1) extremely unfavorable terms of trade imposed upon them, or corrupt spending of development loans, or both (the cases of Argentina and Mexico, for example, which dealt with the problem differently), or (2) the rapid loading of debts onto governments in order to bail out private banks’ bad debt (the cases of Ireland and

Greece, for example). In these cases, the over-indebted nations can, as of a date certain, issue low-interest and long-term sovereign bonds to the IDB *to replace by agreement, their debts owed to major economic powers issuing credit to the IDB as described above; and by agreement, their debts to international lending agencies such as the International Monetary Fund and the European Central Bank. The IDB can use these bonds as the basis for issuing credits to those nations’ national development banks, in those nations’ currencies.*

Where national and regional authorities receive loans from the IDB *in order to carry out the actual creation of great infrastructure projects and/or scientific and technological developments*, which will generate highly productive economic activity as well as revenues for them, they will repay these IDB credits in the same way—by creating national credit banks, on the model of the KfW in Germany for decades after World War II, both to generate additional internal development credit and to invest in the IDB themselves, using their own national currencies.

Lyndon LaRouche described this process, in his 1982 book-length *Operation Juárez* proposal to the nations of Ibero-America for debt reorganization and

development, as being identical in its requirements for debtor nations and for the (then) creditor nation the United States:

1. In no republic must any other issues of credit be permitted, ... excepting (a) Deferred-payment credit between buyers and sellers of goods and services; (b) banking loans against combined lawful currency and bullion on deposit in a lawful manner; (c) loan of issues of credit created in form of issues of national currency—notes of the Treasury of the national government.
2. Loan of government-created credit (currency notes) must be directed to those forms of investment which promote technological progress in realizing the fullest potentials for applying otherwise idled capital-goods, otherwise idled goods-producing capacities, and otherwise idled productive labor, to produce goods or to develop the basic economic infrastructure needed for maintenance and development of production and physical distribution of goods....
3. In each republic, there must be a state-owned national bank, which rejects in its lawfully permit-

ted functions, those private-banking features of central banking associated with the Bank of England and the misguided practices of the U.S.A.'s Federal Reserve System....

4. No lending institution shall exist within the nation except as they are subject to standards of practice and auditing by the Treasury of the government and auditors of the national bank. No foreign financial institution shall be permitted to do business within the republic unless its international operations meet lawful requirements for standards of reserves and proper banking practices under the laws of the republic, as this shall be periodically determined by proper audit ('transparency' of foreign lending institutions).
5. The Treasury and national bank, as a partnership, have continual authority to administer capital controls and exchange controls, and to assist this function by means of licensing of individual import licenses and export licenses, and to regulate negotiations of loans taken from foreign sources....
8. Sovereign valuation of the foreign exchange value of a nation's currency must be established.... The first approximation of the value of a nation's currency is the purchasing power of that currency within the internal economy of that nation. What are the prices of domestically produced goods and services, relative to the prices of the same quality of goods and services in other nations?

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—Lyndon LaRouche,
Feb. 11, 2013

Because trade will increase among the nations participating in the treaty agreements for the building of these great projects, both those issuing credit through the IDB and those receiving loans, the national banks of the participating nations will necessarily create currency swaps large enough for increasing trade payments in each others' currencies. These currency swaps for *increases* in trade, can provide the basis for agreements on stable ranges for exchange rates between and among currencies.

The responsibility and purpose of the International Development Bank is to guarantee that development credits issued by nations go exclusively into the development of the new infrastructure platforms and technological developments most important to increase the productivity of national economies and of the labor forces of the human species.