LAROUCHE'S SEVEN NECESSARY STEPS

Step Three: Issue Hamiltonian Credit for National Projects

by Nancy Spannaus

On Aug. 24, 2011, Lyndon LaRouche outlined a seven-point program as the only possible solution for the present threat of a global breakdown crisis. Having presented the overview in our Sept. 2 issue, and in-depth attention to Steps One and Two—the removal of Obama from office and reenactment of Glass-Steagall, and application of the Glass-Steagall standard to our casino gambling debts (*EIR*, Sept. 9 and 16)—we now turn to Step Three: "For lack of real assets remaining, issue Hamiltonian credit for national projects."

LaRouche stated in that LPAC-TV presentation Aug. 24:

"Now, the key part of this, is that the amount of credit which will survive the purge of this system of debts is unfortunately rather small. Therefore, it is not possible to simply use Glass-Steagall in the simple way, by continuing the present national currency system. You have to go to a ***credit system****, as implicitly defined by Alexander Hamilton when he was Treasury Secretary, and in forming that aspect of the Federal Constitution. So therefore, that division will define a section of the debts that will go to the merchant banking sector and similar sectors—the gambling sector—they are on their own; they get not a penny of bailout! All the debt is entirely assigned to them, that part of the debt.*

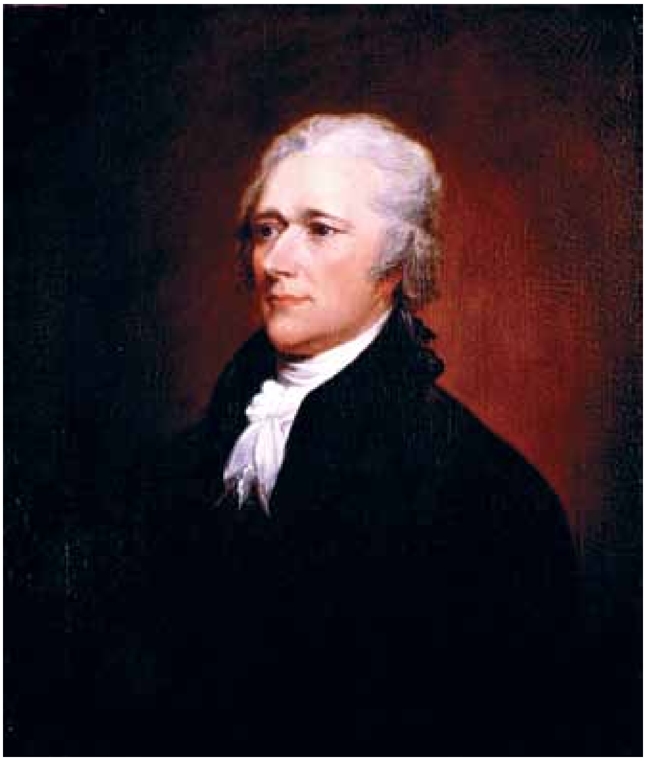
"The debt, however, of the part that will be rescued from this embrace, will be a very small part, because we've waited much too long on this thing, and therefore, the ratio of bad money to good money has gone that way as such. So that has to be done; so we have the division of liabilities.

"Now, what do we do? We have to go to what Hamilton implicitly defined as a code of the Constitution: a credit system, ***not a money system****. We will use money, but money will be defined as a part of a credit system, not a money system in the ordinary sense.*

"The Federal government will, therefore, have to utter credit in excess of what survived the purging through Glass-Steagall. This means that we're going to have to issue state credit, for states and the nation as a whole, the two categories; and therefore, Federal credit will be used, as a means of salvaging and promoting subsequent growth in the state economy, and what is called the national sector, or national government liabilities."

Bankruptcy Reorganization

Another way to describe LaRouche's Step Three would be to call it bankruptcy reorganization according to the principles of the credit system laid out by the first Treasury Secretary of the United States, Alexander Hamilton. For, what the removal of the phony or otherwise illegitimate debts from the books of the nation's commercial banking system, and government entities, will mean, is that our financial system will reflect physical reality: We are indeed bankrupt.



First Treasury Secretary Alexander Hamilton devised a unique policy to deal with our nation's first bankruptcy: the American credit system. It's the indispensable solution today. Painting of Hamilton by John Trumbull, 1806.

Hamilton and the other Founding Fathers faced bankruptcy as well, when the Revolutionary War drew to a close. Much of the physical economy of the colonies had been damaged by the war and the nation was enmired in debt—$65 million, to be precise, owed by the bankrupt Federal government and the states to both U.S. individuals and to foreign individuals and governments. Interest alone on this debt—not counting arrears—amounted to more than the income projected to be available to the Federal government. The accumulation of that debt, on top of the physical destruction, provided a grim prospect for the newly independent nation, making it a prime target for disintegration, or even reconquest.

Hamilton's solution was unique, even within the tradition of European civilization. European tradition at that time called for punishing bankruptcy—even to the point of putting the bankrupt in jail, or de facto selling him into slavery. Hamilton called for, in effect, setting aside the past debt, and turning it into a pool of capital for building up the physical economy, so that the debts of the nation could be paid in the future. The instrument for turning that debt into credit, was the Bank of the United States.

What Hamilton understood was that the ability of the nation to pay its (legitimate) debts, depended upon investing in, and putting to work, the productive powers of labor in the economy, in order to produce the wealth required to generate sufficient profit to pay past debts. Of course, there were those, even in his time, who demanded that debt payments come first—before the general welfare. They were the balanced-budget lunatics of the age, whose successes led, among other calamities, to leaving the U.S. defenseless, going into the War of 1812. But Hamilton knew that was self-destructive, because the future ability of the nation to prosper, *and* pay its debts, required certain immediate investments, from transport infrastructure, to advanced manufacturing in certain crucial areas which would make the United States self-sufficient in the most important economic sectors.

It is this principle which we must apply today in order to get out of our bankruptcy crisis, whose implications threaten the future of all mankind.

Start with Sovereignty

Before Hamilton's program could be put into effect, of course, there had to be a unified, sovereign nation. In principle, that goal was achieved with the crafting, and ratification, of the Constitution of the United States—an enterprise to which Hamilton devoted extraordinary energy in both formulating, and bringing into existence through the political process of ratification.[1] As Hamilton put it: "The manifest design and scope of the constitution is to vest in Congress all the powers requisite to the effectual administration of the finances of the United States."

Despite the fact that the Constitution set forth the clear principles to govern the nation in its Preamble, and elaborated specific powers of the Congress to control the currency, arrange for the payment of debts, and provide for the general welfare, not all of America's leaders were prepared to implement these principles. Specifically, the Madison-Jefferson grouping was determined to deprive the newly formed Federal government of the power over money and credit, in effect, leaving the new nation under the control of the British

1. Nancy Spannaus, "Alexander Hamilton's Economics Created Our Constitution," *EIR*, Vol. 37, No. 48 (http://www.larouchepub.com/eiw/public/2010/ 2010_40-49/2010-48/pdf/04-13_3748.pdf).

The precondition for real economic development is national sovereignty. While the American colonies' victory in the War of Independence was essential to establish it, it would take the Constitution to consolidate the nation's powers. Here, French Admiral Rochambeau and General Washington give their last orders before the Yorktown battle. Painting by Louis-Charles-Auguste Couder, 1790.

Empire in terms of its economy. The battle came to a climax around the question of the establishment of the Bank of the United States.

Thomas Jefferson and James Madison attempted to sabotage the creation of the Bank—which had been approved by Congress in 1791—by arguing that the U.S. government did not have the right to establish corporations, and that such a bank was unnecessary to the functioning of the nation. In response, Hamilton wrote his "Opinion on the Constitutionality of the National Bank," in which he set forth the powers of the new sovereign nation:

"This *general principle* is *inherent* in the very *definition of government* and essential to every step of progress to be made by that of the U.S.—namely, that every power vested in a GOVERNMENT is in its nature *sovereign*, and includes by *force* of the *term*, a right to employ all the *means* requisite, and fairly *applicable* to the attainment of the *ends* of such power. . . .

"The powers of the Federal government as to its *objects* are *sovereign*. . . . The power that can create the supreme law of the land, is doubtless sovereign in this case." It is "incident of *sovereign power*" to erect corporations "in *relation to the objects* intrusted in the management of government."[2]

While Hamilton won the day over the battle for establishing the National Bank, Hamilton's concept of sovereignty, especially as it applies to the Federal government's responsibility to promote the economic prosperity of the nation, has been a matter of constant battle ever since. Hamilton's idea was strongly advanced during the Presidencies of John Quincy Adams, Abraham Lincoln, William McKinley, and Franklin D. Roosevelt, the latter, despite the fact that the establishment of the Federal Reserve Bank in itself had violated sovereign control over credit. But since the FDR's death, the erosion has been much, much worse.

The most egregious example is the operation of the Federal Open Market Committee (FOMC), by which the Fed creates fiat money through the private banking system—and pays the private banking system for the "privilege"! This process is a direct violation of the U.S. Constitution, and can be held directly responsible for the fact that "money" has become increasingly divorced from any physical productive process.

To restore sovereign authority over the U.S. economy today, Congress has to eliminate the Fed's private control over money by effectively turning the Fed into a national bank consistent with the Constitution's grant of powers to Congress to control the nation's finances.

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2. Michael Kirsch, "Hamilton Counsels Congress: Discover Your Powers," *EIR*, Vol. 34, No. 6 (http://www.larouchepub.com/eiw/public/2007/ eirv34n06-20070209/48-70_706_stratstud.pdf).

Hamilton's Credit Principle

The accompanying article, which is excerpted from LaRouche's January 2011 State of the Union speech, provides the most cogent, clear summary available of the fundamental principle which has to be applied in order to put the nation's economy back on track. Details aside, the core idea of the Hamilton credit principle is that it links the emission of money, or bills of credit, to creating a more productive economy (by advancing conditions of technology and labor).

Here, we indicate some of the historical background to Hamilton's application of that principle, as implemented in the Massachusetts Bay Colony, and in the thinking of Benjamin Franklin, the universal genius who provided the link between the Massachusetts colony and the American Revolution, including his collaboration with Hamilton.

As LaRouche has insisted, and historian H. Graham Lowry has elaborated in his groundbreaking book *How the Nation Was Won*,[3] the Massachusetts Bay Colony was the premier republican experiment on the American continent, founded by men inspired by a humanist conception of man's mission on Earth, which can be traced to the great Italian Renaissance. From the start, the colony moved toward self-government based on the rule of reason, including such innovations as printing the laws (not done in England), establishing a public system of compulsory elementary education, and a specific government commitment to economic and industrial development, including the most advanced iron mill in the world, the Saugus Iron Works.

In 1652, when the flows of currency and trade were disrupted by the English Civil War, the Massachusetts General Court (the ruling body) took another step toward economic sovereignty by establishing its own currency, the Pine Tree Shilling. The purpose of the issuance was not for international trade, or "making money," but for facilitating investment in the physical economic development of the colony—later, the Hamilton principle.

3. H. Graham Lowry, *How the Nation Was Won: America's Untold Story Vol. 1, 1630-1754*, Executive Intelligence Review, 1988, 2004.

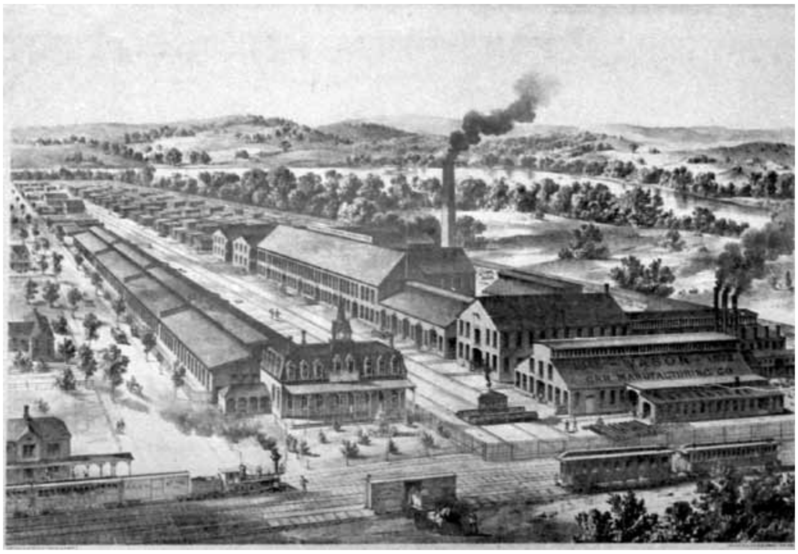
The Massachusetts Bay Colony had a perspective for scientific and technology progress, but needed the financial basis to implement it. Their choice was the Pine Tree Shilling, depicted here.

The coins were redeemable only within the colony, but quickly spread throughout the New England region, becoming a monetary standard, and facilitating trade and investment among the colonies. As there was no monarch in England at the time (Charles I had been beheaded in 1649), the British did not immediately challenge this act of sovereignty—and it is likely that, with this fact in view, nearly all the Pine Tree Shillings were stamped with the date 1652, even though the currency was minted all the way up to 1682.

The issuance of a local currency, of course, was a bold assertion of sovereignty, and the Crown did ultimately squelch not only that power, but the Charter in its entirety. While the Commonwealth's leadership, centered heavily in the Mather and Winthrop families, continued the battle for a republican form of government, it became increasingly embattled. Ultimately, it was left to Benjamin Franklin, son of Massachusetts and intellectual heir to Cotton Mather, to carry on the fight, from his new base of operations in Pennsylvania.

The Pine Tree Shilling was a silver coin, and thus circulated alongside other gold and silver coinage from Europe, which were used in the colonies. But the colonial legislatures also issued paper currency, called bills of credit, as a means for citizens to pay taxes and carry on trade. These bills of credit were often printed under the press of emergencies, such as wartime crises, and were issued with a time frame in which they had to be redeemed through payment, with interest, and were often secured by land (mortgages). Since they were not tied to any productive activity—and the taxes which would supposedly be devoted to redeeming them were often not collected—these bills often tended to depreciate in value, to the point of worthlessness.

When Franklin arrived in Philadelphia in 1723, he immediately took up the question of colonial money. Pennsylvania had just begun to print paper currency for internal trade, since it was experiencing a shortage of foreign coin. Franklin's concern was physical-economic: The well-being of the population was suffering due to the lack of money in circulation. So, in 1729, Franklin wrote "A Modest Enquiry into the Nature and



Library of Congress

The purpose of the American System credit system is to invest in the leaps of technological progress which will create a more prosperous future for the entire population. To the extent it was implemented, Hamilton's system resulted in significant advances in U.S. manufacturing, as shown in this 19th-Century industrial complex.

Necessity of a Paper-Currency," in which he argued that circulating capital in the form of paper money is absolutely necessary in order to promote trade, increase population, reduce usury, and generally improve the prosperity of the colony. This is, of course, only true if that currency is tied to productive activity, not speculation.

Once again, the British Crown was not amused; it wanted the colonies to be economically at the mercy of the oligarchy in London, and the functioning of a strictly local currency which promoted manufacturing, in particular, ran counter to that aim. With the Treaty of Paris in 1763, the Empire began a new round of clampdowns, including a restriction on the issuance of colonial paper money. It was left to the Revolution to resolve the issue, by establishing a new sovereign nation altogether. That new nation, under Hamilton's leadership, prohibited the states from issuing their own currencies, and established *public credit* on the national level, to be centralized through the creation of a National Bank that would emit a *national* currency for the payment of taxes, and, most importantly, for promoting the increase of agriculture and industry to the benefit of the "general welfare" of the population. (For more, see Spannaus, cited above.)

Practical Implications

In this step of financial reorganization, LaRouche is calling for two concrete steps to be taken. First, is the elimination of the anti-sovereign operations of the Federal Reserve, and its transformation into a National Bank that would function on Hamilton's core principle. The second is the Congressional issuance of massive amounts of credit for major national projects, which would drive the transformation of the entire economy onto a higher platform of technological development, and bring millions of unemployed Americans into the process of building a future for themselves and their posterity.

"Oh, but you'll be creating more debt!", we can hear the monetarists say. Yes, indeed, but this will be debt attached to specific projects to build the nation, projects which will increase the productivity of the nation as a whole, and thus pay for themselves over time, with that increase in productivity. This is the Hamiltonian principle of turning debt into credit for the benefit of developing the nation, and with a national commitment to realizing the goal of a future state of progress. It has worked before (the Kennedy space program is only the most recent example), and it will work again.

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The very existence of the Federal Reserve, shown here, is a violation of U.S. national sovereignty. By restoring Hamilton's system, it will be turned into a National Bank.