Introduction to Draft Legislation

by Michael Kirsch

Only in brief periods of United States history has the government used its powers to create an economy operating according to the time constraints of growth, unifying the physical economy with the financial system, and thus allowing nation-building to be guided by the intent of future productivity. Only for brief periods—in 1789-1801, 1823-1830, 1861-1869, and 1933-1944—when the economy was operating under the guidance of a credit system policy, has the U.S. economy been properly conducted in accordance with the design of the Constitution.

In all other periods, nation-building was internally or externally attacked, and U.S. policy was subverted by monetarism. In each mentioned period, the credit system of the United States has been the means to break from that control, and to expand and develop the United States and other nations. It has been precisely the brilliant success and effectiveness of the U.S. credit system which has made it the object of attack and obfuscation.

Monetarism constantly looks backward to the past, with the aim of monetizing the results of past production, rather than the creation of new wealth. The credit system operates on confidence in the future. Rather than depending on past production, or stores of wealth, it creates wealth by tying the future completion of projects, and production of goods and manufactures, to the original promise. The currency of monetarism is formed by the liquidation of present goods into money. In the credit system, rather than the products of growth, growth itself is the currency.

Monetarism views debts as a burden to be immediately dissolved, and demands their payment in the present, at whatever expense to the future, and waste of the past. Within the credit system, debts are not self-evident objects; the action which generates value through the process of their extinguishment is included in their creation.

Monetarism measures all value by capital and labor, and gives to money a self-evident value. In the credit system, the measure of value is not capital or money, but the mental powers which increase the productive powers of labor, which, in turn, increase productive output, thereby increasing the value of goods, labor, and capital. Productivity is therefore the measure of the value of capital. With increases of productivity, the cost of production decreases, and the value of currency increases.

Money can be converted into capital and goods, but credit, though itself not capital, increases the efficiency of capital. Credit makes the same quantity of capital or labor more efficient and productive; it causes an acceleration of wealth, a potential which surrounds existing capital at all times, and puts it into action. The value of national economies is thus defined by the organization of the relations of existing capital and the potential drawn forth by credit.

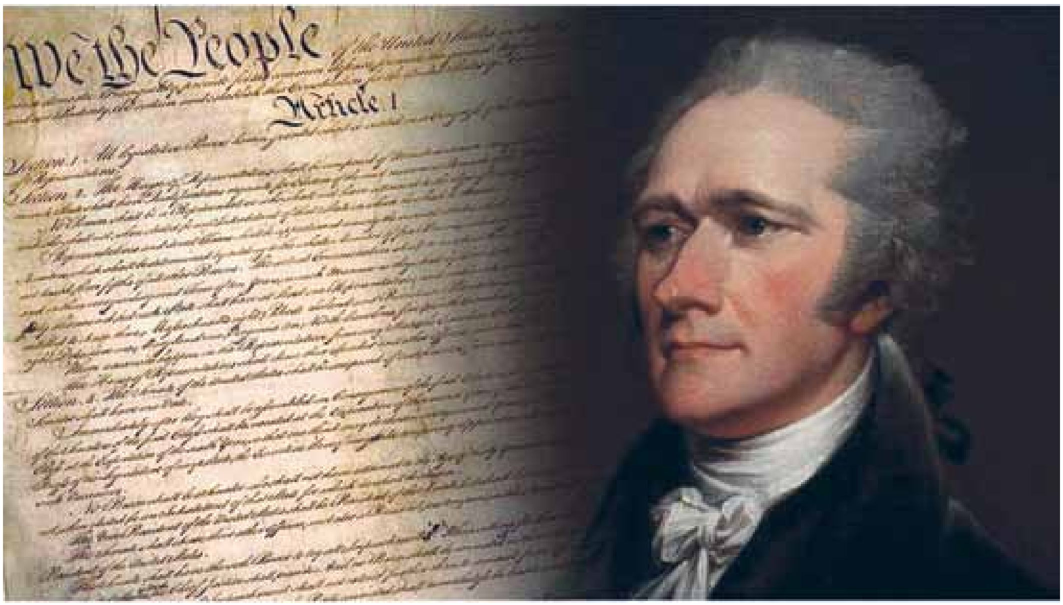
The credit system thus views the total economy as a productive system, and its essential aim is to promote increases in total efficiency and the productive powers of labor through investment in technological progress. It is expressed as a concordance between the laws of the representatives of the people, and the development of resources and industry of those people, defining a paradigm outside the imposed axioms and rules of monetarism.

In the following pages, the key principles of the U.S. credit system will be demonstrated historically, and the necessary understanding to correctly administer its revival, through the included draft legislation, obtained.

Hamilton's Establishment of a Sound United States

The U.S. credit system is not an optional feature, or an add-on to the Constitution. The necessity to organize a credit system was the chief driving cause for the creation of the Constitution.

The sovereignty gained with the Declaration of Independence gave the Congress the implied authority to control the interactions of trade with other nations to the benefit of domestic industry, to create a uniform currency among the states, to uphold the credit of the government by assuming all the powers requisite to the



The creation of the United States as a sovereign nation was made possible by Alexander Hamilton's establishment of an economy based on a credit system, and not a monetary system, as existed under the imperial powers against which our revolution was successfully fought. Portrait of Hamilton by John Trumbull (1806).

effectual administration of finances, and to make the states one unified economy. However, it was bold and immortal act of Hamilton, to use those implied powers.

During the war, the Bank of North America, formed by Robert Morris, Alexander Hamilton, and Benjamin Franklin, created an alternative currency to the depreciated continentals, and credit for the government to secure victory in the war from 1781-1783. But the lack of union of the states did not provide the bank proper funding as a means to unite the states and fund the public debt. The great period of bankruptcy during and after the Revolutionary War, led Robert Morris, Alexander Hamilton, James Wilson, Gouverneur Morris, Benjamin Franklin, George Washington, and other founders to a shared commitment: A new constitution founded in accord with the Declaration was required, with sufficient powers agreed to by the people, rather than those imposed by a confederation of state sovereignties.

The Union was successfully formed only by Hamilton's conversion of monetary debts and a monetary currency into a credit currency, tying the nation's future to the success of all the states, and translating the action of making good on the debts, into the currency itself. The intention to make good on the debts defined the currency, the economy became a driver to build the nation, and the interests of the nation were fused with the Bank and that currency. The currency was not abstracted. In addition, the creation of a new bank, in the same action as funding the debt, through the powers to protect and encourage manufactures, gained in the first act of Congress, created a financial system tied directly to the success of U.S. industry and internal improvements, as well as to the value and funding of the public debt.[1]

By these measures, Hamilton successfully transformed the United States from a money system, into a credit system, as the essential principle of credit is not government notes vs. a currency of gold and silver, but a unification of the powers of the economy behind the currency, such that the currency becomes a reflection of future growth.

The key feature of the Bank of the United States was a direct lending institution for economic growth, determining the guiding boundaries of the economy—not performing lending or discounts mediated by the concerns of commercial banks operating according to mathematical formulas about how quickly the economy should grow, according to supply and demand. It was a legislated institution, not separate from the rest of economy, but at its head. It linked private banking, and the interests of industrial investors and men of trade, directly to the economy.

By funding the national debt with import duties and domestic taxes, and by other powers of Congress, the debt became the basis for a currency of bank credit and bank notes circulating upon the credit of those funded

[1] See Nancy Spannaus, "Alexander Hamilton's Economics Created Our Constitution," *EIR*, Dec. 10, 2010; and "LPAC Special Report, NAWAPA XXI: Great Project To Restore the American System," *EIR*, March 30, 2012.

debts, which made up most of the Bank's capital stock. Various debt certificates issued during the war were reissued as a representation of the new power of government in action, while the branches of the Bank accepted the new debt certificates as deposits and lent on the credit of expected manufacturing and industry. The provision for funding the debt of the United States threw into circulation an immense amount of capital, which gave life and activity to business. Hamilton wrote to Congress, in his 1791 *Report on the Subject of Manufactures*, of the effects of his system:

James Wilson
Robert Morris
Benjamin Franklin
Gouverneur Morris

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Other than James Madison, James Wilson and Gouverneur Morris were the most active members of the Constitutional Convention. Wilson wrote the first draft of the Constitution. G. Morris wrote the Preamble, and rewrote the Constitution, with Hamilton, in its final form. Both worked with Robert Morris, Alexander Hamilton, and Benjamin Franklin in the formation and direction of the Bank of North America, upholding the credit of the Continental Congress through the Revolutionary War. Sculpture by Stuart Williamson.

> In a sound and settled state of the public funds, a man possessed of a sum in them, can embrace any scheme of business, which offers, with as much confidence as if he were possessed of an equal sum in coin. This operation of public funds as capital, is too obvious to be denied.... Though a funded debt is not in the first instance, an absolute increase of Capital, or an augmentation of real wealth; yet by serving as a new power in the operation of industry, it has within certain bounds a tendency to increase the real wealth of a Community.

Under Hamilton, money became subservient to credit, and the currency in circulation was almost entirely that which was tied to the future value of funded debt. Gold and silver fell into the background, and people preferred to use credit—the national bank notes, and notes of other state banks that rose into place to facilitate the growth of internal regions. Money, as such, defined as gold and silver, was a mere fraction of what was used for settling accounts, and as the banking system developed, gold and silver became relegated to .01% of all payments made in commerce and industry, and 1% of the value of transactions.

Hamilton's credit-based currency put into motion the active capital of the country. Reflecting on the system he had constructed, he wrote 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 capital; and, even then, he derives, from an established and increased credit, the means of extending his undertakings.

The purpose of Hamilton's policies, properly understood, is not monetary, but industrial and scientific. Hamilton viewed the currency not as wealth itself, but the constitutional responsibility of government to facilitate the scientific ingenuity and spirit of enterprise. In Hamilton's *Report on Manufactures*, he laid down the essential principle of economy as a physical system of productivity. The primary measure of value is not capital, but the mental powers which increase the productive powers of labor, and thus increase the value of capital through increasing productivity and production. The determination of the value of goods, of labor, and of production is therefore those increases or decreases in the rates of productivity.

The credit system thus formed, augmented the means and ingenuity of the citizens to promote their own and the public welfare. The aim within the credit system was not to produce for the purpose of obtaining money, but to obtain credit as the means to increase the powers of labor. Innovations and inventions increase the profit of loans: They are not mechanical. Innovations further increase the productivity of the economy. Hamilton's action of turning monetary debts into credit debts became more valuable to the growth of the economy, than if the full monetary debt had been forgiven.

Hamiltonian economist Robert Hare wrote in 1810:

> Under a strict system of law … credit … is preferable to money. The man who enjoys the one, has nearly an equal facility with him who commands the other, in the purchase of materials for trade, or manufacture. But the stimulus to industry, or exertion, is very different in the two cases. The mechanic who has a hundred dollars, can live without work so long as it lasts. He may spend the whole, or part, in his pleasures, or for his sustenance, and may work proportionally less. But the mechanic who can command credit to the amount of a hundred dollars, has nearly the same capacity to earn money, as the other; but his privilege will not sustain him in idleness, or dissipation. It can only be of use to him, through the medium of industry.
>
> Prone in common with all substantial and hereditary wealth, to subside into channels rather ample than numerous, the precious metals flow through a country in large streams, which carry out as much as they bring in, and contribute more to partial magnificence, than to general fertility: while credit, springing up in innumerable self-created rills, diffuses a fertilizing influence throughout every region.[2]

It is essential to comprehend that the U.S. credit system is not merely a well-regulated currency in which credit is available through banks, but is the total organization, by the mind, of economy, toward growth. This is seen in the distinct policy which makes up all of Hamilton's reports on public credit, especially his final review in 1795.[3]

Hamilton's management of the Treasury shows an unending devotion to the management of finances according to this guiding principle: that the outcome of any debt payments, new Congressional laws, and expenditures, had to lead to an increase of productivity. The balance of payments of the debt coordinated through the Bank was continuously organized according to the principle of maintaining a diversion of surplus and revenues toward increasing economic growth.

According to the first act of Congress following his first *Report on Public Credit*, no debt of the government was to be handled as a self-evident, monetary debt, but was tied together with a future income related to increases in productivity, through the economy regulated and facilitated by the Bank.

Under President Thomas Jefferson and Treasury Secretary Albert Gallatin, from 1801 onward, the economy operated in explicit opposition to Hamilton's system; as before the Constitution, the U.S. economy became a pawn of foreign interests.

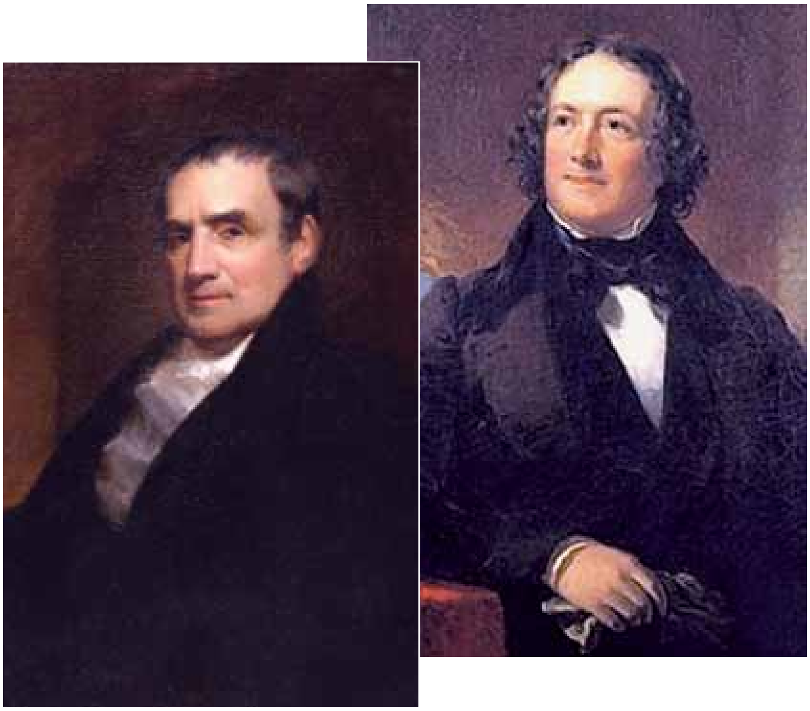
Gallatin had been the chief domestic opponent in Congress of Hamilton's management of the Federal budget toward productive increases, and the utilization of the debt as an instrument of public credit. He, in general, opposed Hamilton's entire program, and had voted against the Constitution in 1789, notably those powers of Article 1, Section 8, which provided economic sovereignty from the British Empire. Gallatin radically changed the policy of the Treasury Department and its relation to the Bank, directing the surpluses of economic growth toward the present and past, paying off the national debt as quickly as possible. The product of the banking system, and the increases of national income from productivity which had only been possible through the deft arrangements of Hamilton, were now thrown toward immediate extinguishment of the debt, cutting the ties of the economy to the future.

Therefore, although the Bank of the United States still existed, it was no longer the U.S. credit system.

[2] Robert Hare, "Proofs that Credit as Money in a Truly Free Country Is to a Great Extent Preferable to Coin," abstraction from a pamphlet written in 1810, published 1834.

[3] Alexander Hamilton, *Report on a Plan for the Further Support of Public Credit*, Jan. 16, 1795.

Amidst the more systemic decline in productivity thus generated, an outstanding feature was the depletion of the Navy and its virtual non-existence in the lead-up to the War of 1812.[4] The Jefferson Administration laid the foundation for the later, more radical "simple machine" of government of the Andrew Jackson Administration, which finally did away entirely with Hamilton's system, a process facilitated by Aaron Burr, John Randolph, and others, reshackling the economy to the arbitrary axioms of monetarism and British East India Company interests.[5]



Benjamin Franklin's protégé Mathew Carey (left) and Nicholas Biddle, in 1823, established the Second Bank of the United States, on Hamiltonian principles. Portraits of Carey, by John Neagle (1825); Biddle, by William Inman (ca. 1830s).

Mathew Carey's Revival of Hamilton's System

Under the leadership of one of our greatest men, Mathew Carey—the Ben Franklin protégé who mastered the principles of economy in Hamilton's *Report on Manufactures*—a team was organized to restore the Hamiltonian economy, of which the founding of a new Bank of the United States under James Madison was a part.[6] However, the existence of a Bank of the United States alone does not equate to a national credit system, and the re-establishment of Hamilton's system was only successful with the direction of the Bank by the Hamiltonian, Nicholas Biddle. Beginning in 1823, and working under the leadership of Mathew Carey, Biddle restored a functioning national currency, from the effects of speculation caused by the destruction of Hamilton's system.[7]

As under Hamilton, from 1823 on, the system was managed to constantly make credit agreements, not liquidate wealth for the present. Biddle's principle was to maintain the economy's operations within the time scale of the credit system, rather than allowing an excess demand for immediate payment, in particular immediate payment in money. This allowed productive surpluses of all parties to be constantly absorbed into future growth and productive investment, expressed by greater facility of credit, not as idle wealth merely for increased consumption, i.e., the bane of money. The domestic economy was able to grow in relation to its productive power rather than by artificial controls.

The value of the currency was determined by increased rates of production, and the facility and security of investment of expanded production further consolidated credit. As more agricultural land was developed, as more manufacturing facilities became established, and as new transportation networks for agricultural 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, doubling and tripling over that decade. The currency bore a proper relation to the real business and exchanges of the country, being issued only to those whose credit entitled them to it, increasing with the wants of the active operations of society, and diminishing, as these subsided, into comparative inactivity. The Bank currency was firmly backed by the productive sector, and its value increased, as the cost of

[4] Gallatin decreased the debt between 1801 and 1812 by 80%, but then, in effect, increased it by 180%, due to the condition of the economy during the war, or a net 60% increase from where it had stood under Hamilton.

[5] Michael Kirsch, "The Myth of Andrew Jackson Is Hereby Destroyed," www.larouchepac.com/andrewjackson; *EIR*, Dec. 14, 2012.

[6] Mathew Carey, "Essays on Political Economy; or The Most Certain Means of Promoting the Wealth, Powers, Resources, and Happiness of Nations," Philadelphia, 1822.

[7] Michael Kirsch, "The Credit System vs. Speculation: Nicholas Biddle and the 2nd Bank of the United States," *EIR,* July 20, 2012.

production decreased.

This was the essential principle of paper credit, as opposed to paper currency, since no currency is substantial which does not unite the resources and growth of the real economy with its establishment and circulation. In contrast, central bank fiat currencies, as at present, become tools of subversion of national sovereignty, rather than national advancement.

Since the Bank had an established capability to direct and coordinate interactions of productive growth based on the credit of their completion, nearly any valid enterprise was facilitated through the credit of the Bank of the United States, in coordination with state and Federal governments, provided it was within the means of the regulated currency.

Within a few years of Biddle's reorganization of the Bank, the confidence of the people that the Bank of the United States would now be the dependable means for economic investment, gave the impetus to enterprise which led to the great expansion of canals and industries. Armies of industrious and capable men were encouraged to commence operations as merchants, manufacturers, and farmers, without sufficient capital at the outset to support their enterprise, leaning for aid upon the credit system. It was only because of this new confidence that new lands were settled with such speed, manufactures increased with such spirit, and canal projects built with such scope.

With the growth of the credit system, fewer and fewer payments were settled in cash transactions. As with Hamilton's maxim for public credit, that the creation of a debt should always be accompanied by the means of its extinguishment, so in all commercial banking under the Bank of the United States, the same principle was increasingly made to apply: that no self-evident debts be created, but credit agreements which ensure that circulation is returned by the debtors to the banks at a rate equal to that at which it is issued.

Under the proper functioning of the credit system, the meaning of debt was transformed. The debts of farmers were paid by next season's produce; the debts of merchants were paid through subsequent sales; and on the larger scale, the debt of states for infrastructure were paid by the future development of industries. The debt created for internal improvements, and personal debts in farming and manufacturing, were simply part of the growing economy under the credit system. The states which had incurred large debts for canals and roads planned to develop iron and coal industries and new transportation routes for the products of the new lands. These newly developed lands and industries along the infrastructure routes increased income ten times over the initial investment.

The Imposition of Monetarism

After the successful demonstration of the Hamiltonian credit system under the Second Bank of the United States, the only desire for radical *laissez-faire* banking and trade came from British agents, or those with allegiance to trade and commerce, rather than national industry. It was not an honest difference of view or opinion of the Constitution.

The controllers of Andrew Jackson intentionally destroyed the credit system, and the basic principles of physical productivity were replaced with theories of a hard-money currency in order to justify drastically reducing circulation.[8] Gold and silver were designated the true riches for the population to seek after; productivity was no longer deemed a measure of value; and it was preached that the nation, as a single economy, was not a valid reference point. Individual property and the "liberty" of wealthy land and slave owners were declared sacred. The fallacy of the "laws of the market" was imposed, supplanting the common good. The Martin Van Buren Administration demanded debts be paid in the present, at whatever expense to the future, and waste of the past. Valid credit agreements were attacked as spendthrift and the cause of the crisis, which was in fact created intentionally by the controllers of the Jackson Administration, and thereafter replaced with austerity as a means to appease "the market."

Under the imposed money system, debts are viewed in the present, with an abstract amount of debt and money deemed "proper" for the market, according to the false doctrine that the market will generate by itself the proper supply and demand for production, without a program of nation-building.

Legal tender issued by Abraham Lincoln was circulated on the same fundamental hypotheses as the notes of the Bank of the United States. Once again, under the Andrew Johnson Administration, Treasury Secretary Hugh McCulloch, working with Lincoln-deserter and British agent David Wells, artificially contracted Lincoln's legal tender, in opposition to the actual ability and needs of industry. Repeating exactly Jackson's and Van Buren's claims, McCulloch and his followers in the

[8] Op. cit., note 5.

Ulysses S. Grant Administration mocked the people, saying that the "over-production" of "the market" had caused the crisis, and that the previous economy had been excessive. The economy was thus sacrificed on the altar of monetarism.

Such, and later contractions and crises, as that in the 1870s, again after McKinley, again during 1929-1932, again, and again, and again, are caused by the intentional destruction of the industrial economy and associated credit system. Each time, sophistical methods, akin to the feigned innocence of Jackson and Van Buren, are used to claim other causes.

The General Welfare and The Declaration of Independence

Contrary to the myth of Andrew Jackson, the credit system of the Bank of the United States broke up the aristocracy of wealth, as idle capital was made available in loans and discounts, profitable to all parties. The credit system of the Bank of the United States meant that any citizen could compete with a wealthy capitalist; that it was the right of anyone with a spirit of enterprise to receive the means to increase productivity.

The Declaration of Independence demanded Hamilton's credit system, for it is the intention of inalienable equal rights that the man qualified for commercial pursuits should embark upon them using capital obtained on interest; the man of skill in the manufacturing arts should have that scope given to his enterprise and usefulness which a confidence established between him and the money-lender is so well calculated to carry out; the farmer should strive to become the owner of the soil he cultivates by a purchase upon credit, depending upon the products of his labors to discharge the debt.

Guaranteeing equal rights is not simply providing a safety net. It is not equally distributing money. Equal rights means the ability to contribute to the productivity of the nation, and thus the right to go into debt for that purpose.

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A credit system, whose aim is to advance the productivity of the national economy, will uplift the conditions of life for the entire population, and lead to increasing skill-levels and productivity in the workforce. Shown: a skilled technician operates machinery in an auto plant.

Government cannot create wealth directly by printing and coining money, because wealth is properly measured as the productivity of the economy. But a sovereign government can create a central institution which regulates the means of exchange of credit for the productivity of the economy. The responsibility, duty, and authority of elected representatives is to provide a vision for the country—not to control every operation, but to create the means to steer the ship of state towards national prosperity. Through the Hamiltonian credit system, the government thereby fulfills its responsibility by creating the means to enable the right.

With the right, the spirit of enterprise becomes animated through credit agreements. An increasing number of all transactions becomes based on the modes of payment of the credit system, as the freedom and security of a person's property becomes further established. Since the conduct of the worker ensures his ability to obtain the aid of capital, rendering his labor more productive and his condition improved, there are an increasingly large number of incentives for Americans to apply their property productively toward future aims. The moral character of citizens improves, improving in turn the efficiency of credit. In this way, the moral nature of society gives the credit system its power.

Without the credit system as intended and utilized by the Founders of the Constitution, Americans have always suffered an irony: that with a banner of equal rights waving over their heads, the demand to pay on the basis of existing or past wealth imprisons enterprise, disables the ability, and removes the right, to increase the power of their labor.

As American System economist William Elder put it in 1871:

> A society without a credit system is simply savage. A business economy, whose capital should be limited to material property, would be a despotism of property ... as dead as the insensate earth, where all that is precious is in the fixity of crystals, and all that is common, is as incapable as the rocks in which the gold and silver are coffined.

The Lesson of the 1930s

There is one crucial lesson to be drawn from the Franklin Roosevelt Administration's approximation of the Bank of the United States credit principle. It was necessary for the Roosevelt Administration to not merely reorganize the banks, but to establish a principle of credit, which did not otherwise exist. His administration reorganized the banks, not for the banks per se, but to make them capable of operating within the new context of the operating credit principle for which he was aiming, with a plan for "Credit Banks for Industry," which eventually became the expanded Reconstruction Finance Corporation (RFC). The 1934 Industrial Advances Act and subsequent RFC amendments and credit policies were a commitment to the success of the industrial recovery, from the decades of failed economic policies, which were brought about through the consolidation of Wall Street's and London's control over U.S. policy.

Understood correctly, Roosevelt's direct lending for industry, beginning in 1934, was not intended as a special function added to the economy, but as the building of a new economy, since the former economy had been destroyed by preceding decades which had replaced long-term credit agreements for industrial advancement with speculation. He achieved a functioning credit system with an increasing amount of the financial system linked to the economy, rather than linked to banks, which the Federal Reserve system had served.

Return to the Original Bank of the United States Credit System

The U.S. credit system defines an economy bounded by increasing rates of productivity facilitated by credit lending, in which the rest of commerce takes second place. It is based on a currency in circulation representing future value, which ties the long-term intention of the government to the ability to carry out that intention. It provides for a sufficient medium of future payments, governed by the chief institution of credit.

The credit system's currency allows the nation the leverage of capital based on how much physical trade it can support. The amount of currency and credit is regulated by this crucial principle, not by any mathematical formula.

Industrial credit policy may err, but it can never be excessive under the leadership of U.S. economists in the tradition of the American System, nor has it ever been.

This lesson must be learned now, or the nation will surely perish through lack of attendance to simple laws of productivity, and by allegiance to axioms completely foreign to our great legacy.

We are a nation impossibly chopped into pieces. Under Barack Obama, and largely since President John Kennedy, the bold action to put the nation before the interests of Wall Street, and foreign and supranational trade, has departed from the halls of government. Credit implies government vigor, power, and authority. The failure to use the authority of government will mean the loss of the nation. What is at stake is not a question of "limited government" or "big government," not a question of Democrat or Republican. The credit system is a matter of national prosperity.

Thankfully, the myths of monetarism have been thoroughly refuted countless times by such among our famed 18th- and 19th-Century economists as Benjamin Franklin, Alexander Hamilton, Mathew Carey, Daniel Raymond, Henry Carey, William Elder, Robert Ellis Thompson, and Stephen Colwell. Provided that chimeras are not debated, the advocates of the credit system have taken the field and can once again claim victory. If patriots would now align with these great economists, as Lyndon LaRouche has done, their opponents would have no ground on which to stand.

Government must reclaim its power to legislate the creation of a financial system that provides all citizens with the right to make use of their spirit of enterprise, a system of currency that gives every citizen a capability to increase his or her productivity, and the right to go into debt for such a purpose.

The Congress has repeatedly abdicated this power, maintaining the myth of Andrew Jackson. That myth has been destroyed; the government is now freed to restore the original Bank of the United States and the Hamiltonian credit system.