

# Franklin Roosevelt's Credit Principle

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*This is Part I of a [lecture](#) given on July 29, 2013. Part II, "Generalizing the Principle of Government Credit," is available at [www.larouchepac.com/node/29272](http://www.larouchepac.com/node/29272).*

## Introduction

Today I am going to be speaking to you about Franklin Roosevelt's credit principle, and how he brought the United States out of the Depression through re-establishing an approximation of the Hamiltonian Bank of the United States Credit System.

Now there are two elements in what I want to go through today. One, the correct understanding of debt and credit. But chiefly, two, why the only way in which a credit system can function is if the economy is guided by a national lending institution, or in the case of Franklin Roosevelt, a number of lending institutions. And, how that system of lending institutions, or a national one like the Bank of the United States, which the Reconstruction Finance Corporation (RFC) approximated, are successfully guided by the correct understanding of government, as government for the general welfare.

In fact, the idea of credit was the *essential fight* concerning all of Roosevelt's institutions: the idea of the existence of government credit, versus the Andrew Jackson simple machine of government and *laissez-faire*; whether there should be credit, or whether there should only be money and cash, where things have to go by the wayside if the money does not exist up front at the time of transactions and potential investments. Roosevelt established the idea of the credit principle *throughout* the economy, and that was the key issue in what he developed.

## FDR Reviews the Crisis and Reforms of 1933

I want to start out on that question by looking at FDR's 1933 program from the standpoint of the "Papers

of Franklin Roosevelt," published in 1938, to which he wrote the preface.<sup>1</sup>

He reviews the situation of people losing savings, losing jobs, and where a continuing fear had developed under the deadening hand of the Depression, the fear of eviction from homes and farms, and even starvation.

In the face of this crisis, FDR says there was no remedy short of a permanent solution; that a temporary revival was insufficient. But he says that that simple truth was not recognized by some people. In fact, a great many were incapable of thinking clearly because they were thinking in monetary terms, in terms of "immediate dollars." He writes:

"In the face of this crisis in national morale, no remedy which stopped short of correcting the immediate material illness of the moment could be a safe or permanent cure.... That simple truth was not recognized by some people. *In fact, a great many who were thinking of future national welfare in terms of immediate dollars began to protest within only a few weeks after the banking crisis of March 4, 1933, against our efforts to couple reform with recovery.* In their selfish shortsightedness they were deluded into the belief that material recovery for the moment was all the Nation needed for the long pull. These few did not realize how childish and unrealistic it was to speak of recovery first and reconstruction afterward."

He had in mind, throughout the period of false prosperity after World War I, and the dark days of 1929, the clear need for the re-establishment of government authority, the re-establishment of the Constitution of the United States, and all the powers that went into it.

But there were those who said, "No, no, no, let's

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1. *The Public Papers and Addresses of Franklin D. Roosevelt*, Vol. 2, "The Year of Crisis, 1933"; with a special introduction and explanatory notes by President Roosevelt.



*President Franklin Roosevelt's New Deal program to rapidly reverse the worst aspects of the Depression was based in principle on Hamilton's notion of national credit. Here, FDR announces the Bank Holiday, March 6, 1933, two days after his Inauguration as President.*

just correct things that can be fixed immediately. We'll bail out a few of the banks and the industrial corporations. Let's just put the machine back in motion, and laissez-faire and supply and demand will bring everything back in order." In contrast, Roosevelt saw the need for a more permanent structure, what he describes as real reform. He came up with the idea of the "New Deal." And as he describes in that location, "Deal," as in real action of the government: "that the Government itself was going to use affirmative action to bring about its avowed objectives"; not sitting back passively and letting things happen. And "New," as the new system that would come to be, that "would replace the old order of special privilege in a Nation which was completely and thoroughly disgusted with the existing dispensation."

He continues:

"The New Deal was fundamentally intended as a modern expression of ideals set forth one hundred and fifty years ago in the Preamble of the Constitution of the United States—a more perfect union, justice, domestic tranquility, the common defense, the general welfare and the blessings of liberty to ourselves and our posterity.

"But we were not to be content with merely hoping for these ideals. We were to use the instrumentalities

and powers of Government actively to fight for them. There would be no effort to circumscribe the scope of private initiative so long as the rules of fair play were observed. There would be no obstacle to the incentive of reasonable and legitimate private profit.

"Because the American system from its inception presupposed and sought to maintain a society based on personal liberty, on private ownership of property and on reasonable private profit from each man's labor or capital, the New Deal would insist on all three factors. But because the American system visualized protection of the individual against the misuse of private economic power, the New Deal would insist on curbing such power."

### **The Right To Be Productive**

As I described in "[The Bank of the United States Draft Legislation](#)," written in February 2013, the government's role is to create the *means*, through a lending institution, to provide the *right* to the citizens to be productive. It does not mean coming in and setting prices, controlling everything that goes on, or deciding which companies can exist, and so forth. There is a reasonable profit to each man's labor, private ownership, and personal liberty. But the issue is, that to make all three work, you have to crush institutions like JP Morgan, which he did.

Roosevelt says there were many people objecting to his reforms throughout the Spring and Summer of 1933, when the measures were being carried out: "A vocal minority had already begun to cry out that reform should be placed on a shelf and not taken down until after recovery had progressed."

Today we hear, "Let's wait till after the recovery! After the recovery, then we can reinstate Glass-Steagall. After the recovery... We don't want to hurt anything right now." This is what we have seen in the last years from Congressmen who have believed the well-paid lobbyists of Wall Street. What Roosevelt is describing is a mirror image of what is going on in the United States today.

But what was this concept really? What did it mean for Roosevelt to come in and reinstate the American System, and the Preamble of the Constitution?

What it was in fact, was the creation of the *means* of the Powers of Congress. The Powers of Congress express a wide latitude for application. Depending on the prevailing situation in history, and depending on the crisis of the time, one must ask, “What are the means that will effect the objects to be carried out?”

Alexander Hamilton lays this out in various locations, such as his “Report on Manufactures” (1791), when also discussing this very concept of the powers of the Congress. In Roosevelt’s case, he creates a series of credit institutions, which were all within the latitude of Article I, Section 8. Before getting into those institutions and the principle involved, I want to briefly review the precedent of Hamilton’s discussion of the same.

### **Hamilton on the General Welfare and the Authority of National Government**

In Hamilton’s “Report on Manufactures,” he writes: “The National Legislature has express authority ‘to lay and collect taxes, duties, imposts, and excises, to pay the debts, and provide for the common defense and general welfare,’ with no other qualifications than that ‘all duties, imposts and excises, shall be uniform throughout the United States.’ These three qualifications excepted, the power to raise money is plenary and indefinite, and the objects to which it may be appropriated, are no less comprehensive than the payment of the public debts, and the providing for the common defense and general welfare.”

So one might ask, since that is pretty broad, “What do you mean general welfare?” Hamilton continues: “The term ‘general welfare’ were doubtless intended to signify more than was expressed or imported in those which preceded; otherwise, numerous exigencies incident to the affairs of a nation would have been left without a provision. The phrase is as comprehensive as any that could have been used; because it was not fit that the constitutional authority of the Union to appropriate its revenues should have been restricted within narrower limits than the ‘general welfare’; and because this necessarily embraces a vast variety of particulars, which are susceptible neither of specification nor of definition.”

These are questions of appropriating money. Earlier, in his paper on the “Constitutionality of the National Bank,” in 1791, he wrote, “Can we appropriate

money in the establishment of the Bank of the United States?” And he presents a similar argument here, where he says:

“There is an observation of the Secretary of State to this effect which may require notice in this place:— Congress, says he, are not to lay taxes *ad libitum*, for any purpose they please, *but only to pay the debts or provide for the welfare of the Union. Certainly no inference can be drawn from this against the power of applying their money for the institution of a bank.* It is true that they cannot without breach of trust lay taxes for any other purpose than the general welfare; but so neither can any other government. The welfare of the community is the only legitimate end for which money can be raised on the community. The constitutional test of a right application must always be, whether it be for a purpose of *general* or *local* nature. A bank, then, whose bills are to circulate in all the revenues of the country, is evidently a general object, and, for that very reason, a constitutional one, as far as regards the appropriation of money to it.”

Also, in the end of the “Report on Manufactures,” Hamilton is looking at the authority of the national government to provide for infrastructure, what Franklin Roosevelt does later, which had been halted during Hamilton’s time.

“There can certainly be no object more worthy of the cares of the local administrations; and it were to be wished that there was no doubt of the power of the National Government to lend its direct aid on a comprehensive plan. This is one of those improvements which could be prosecuted with more efficacy by the whole, than by any part or parts of the Union.”

And he said the same about the encouragement of inventions and discoveries:

“As in some other cases, there is cause to regret, that the competency of the authority of the National Government to the good which might be done, is not without a question. Many aids might be given to industry, many internal improvements of primary magnitude might be promoted, by an authority operating throughout the Union, which cannot be effected as well, if at all, by an authority confirmed within the limits of a single State.”

This meaning of the “general welfare” and the “authority of government,” which was defined clearly by our first Treasury Secretary and those working with him, was the basis for much of Roosevelt’s actions and those of Congress.