The American Economy Needs Credit, Not Crypto—Part 2

by Paul Gallagher

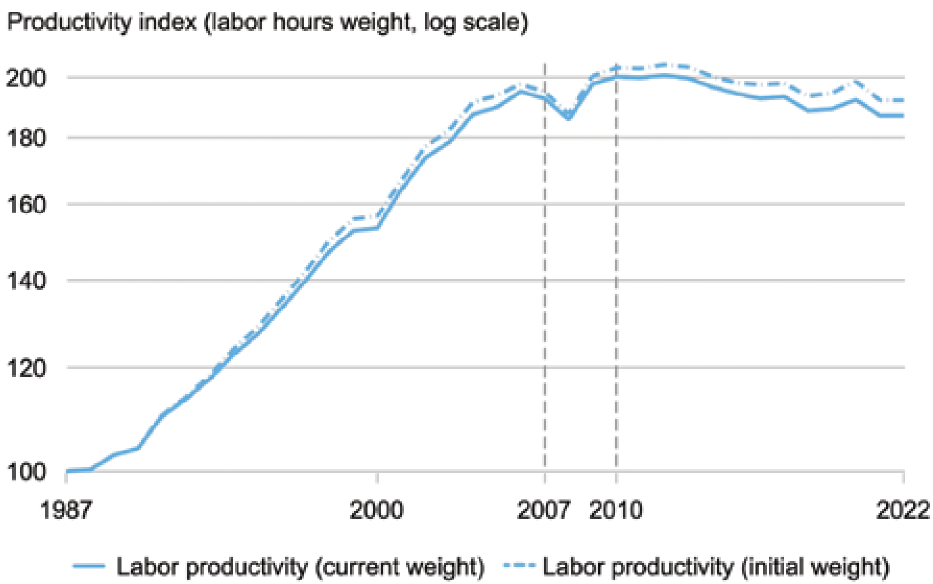
As already discussed in Part 1, the U.S. Treasury market for the national debt, immensely swollen over the past five years, has become volatile, swarmed by hedge funds speculating with financial derivatives, and is in danger of a worse repeat of the dollar liquidity crisis of September 2019-March 2020. It has reached the point where a panel of experts advised the Federal Reserve to form an emergency "hedge fund bailout facility," in order to "close down highly leveraged hedge-fund trades in the event of a crisis in the $29 trillion U.S. Treasuries market."

This threatening U.S. debt crisis will be made worse by promoting cryptocurrency "stablecoins"—which have not proven to be stable in value—as parallel U.S. dollars minted by tech companies. Despite five banks having failed with the help of runs on cryptocurrency deposits since the March 2023 bank crisis, the Securities and Exchange Commission is curtailing banks' ability to consider crypto deposits "risky", and two banks jointly issued a stablecoin in late March 2025.

The legislative authorizations for "stablecoins," advancing in both Houses of Congress, call for "light-touch regulation," a recipe for failures. But even supporters of this new Trump Administration policy, like Federal Reserve governors Christopher Waller and William Dudley and New York Sen. Kirsten Gillibrand, are warning of failures hitting these coins—and the Treasury market—if they are not very tightly regulated.

Nor will "economic growth through trade policy" work. The White House is determined to revive American manufacturing, from steel and aluminum and motor vehicles to transistors and semiconductors, not to mention satellites and other space vehicles. But there is a stubborn fact in the way of gearing up the American industrial sector. The *productivity* of the manufacturing sector of the U.S. economy has not increased in 15 years. In fact, American manufacturing productivity is no greater, or lower, now than it was in 2010, whether measured by simple labor productivity, or by the more accurate measure of total factor productivity ("technological productivity"). This can be seen in detail here on the website for economic research of the New York Federal Reserve Bank, in a blog post from July 2024 (see **Figure 1**).

FIGURE 1
Labor Productivity Slows Down

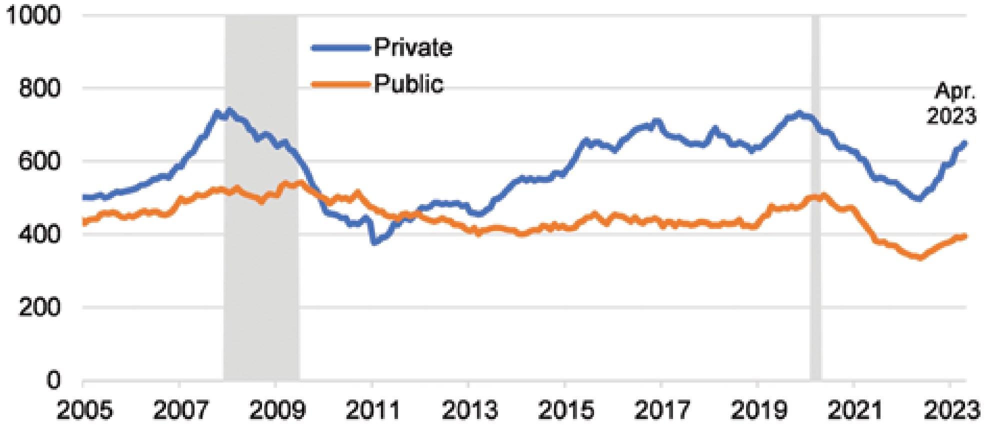


Put aside all the competing Republican and Democratic claims of prosperity, wage growth, employment, and so forth since 2016: The fact is, that over eight years since President Trump's first inauguration, multiple sets of tariffs, tax cuts, subsidies, sanctions against Russia and China, etc., have all been used, and have failed to move the needle of depressed *American indus-*

trial and manufacturing employment. It was just 2.2% higher in December 2024 than at the start of Trump's first term eight years earlier.

As for construction—about which the Biden White House liked to brag—here is the truth: The housing market is largely paralyzed by inflation and expensive credit, and *non-residential* construction investment, despite all attempts to hype data center construction, was lower at the end of 2023, than in the crash years 2008-09! That goes for both private and public investment (see **Figure 2**).

FIGURE 2
Non-Residential Construction Spending
billions of 2022 U.S. Dollars



Notes: Total Construction Spending: Nonresidential in the United States, U.S. Census Bureau. Monthly at a seasonally adjusted, annualized rate. Nominal spending deflated by the Producer Price Index for Intermediate Demand Materials and Components for Construction, Bureau of Labor Statistics.

Infrastructure, Development Projects, and Credit

What has happened to the trumpet calls for "a beautiful new infrastructure" of ports, railroads, power plants, water management projects, which we heard so frequently from President Trump during his first campaign and first administration? They've not been mentioned by the second Trump Administration. The U.S. International Development Finance Corporation (USDFC), created at Trump White House initiative by 2018 legislation, could be financing investment projects in cooperation with other major economic powers. These would call for high-technology capital goods exports from America and cause U.S. productivity to rise. But the USDFC, which could have issued more than $60 billion in capital for high-technology infrastructure projects, is reportedly being downgraded, to be given other functions and merged with the U.S. Trade and Development Agency.

The United States could be building new infrastructure, from high-speed rail lines to large-scale water transfer to fight the western drought; it could be cooperating with the major BRICS nations to make fusion energy breakthroughs and fund development projects like the LaRouche Oasis Plan for Southwest Asia. But in the midst of Elon Musk's drastic austerity campaign, there is no thought of credit for such sciences and projects.

What the American economy needs is credit—credit directed to new infrastructure, productive employment and productivity—from a National Bank for economic infrastructure and manufacturing. It needs a system of commercial banks under a restored Glass-Steagall Act, which makes them lend for economic purposes and not speculate with customers' deposits.

U.S. Federal Reserve home page

The U.S. Federal Reserve Building, Washington, D.C.

Glass-Steagall vs. Federal Reserve Sabotage

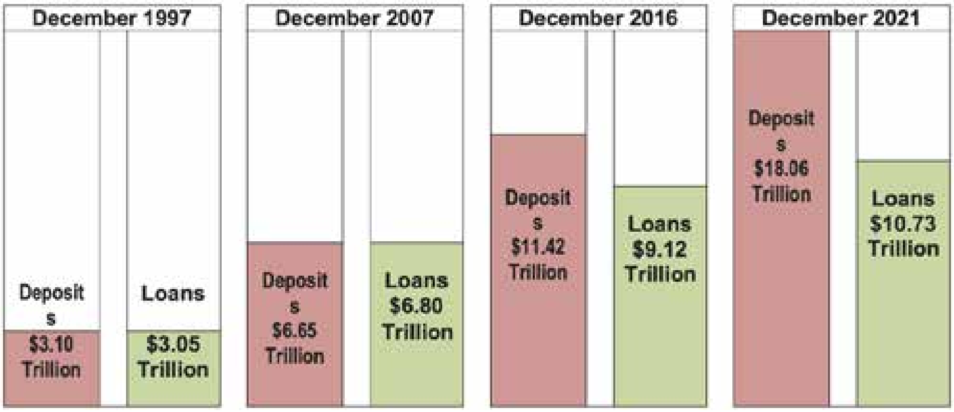
At the heart of the lack of such credit for the U.S. economy, is the Federal Reserve Bank system. Consider: The United States' central bank, while dominating monetary and banking policy, refuses credit lines or loans to any part of the economy, public or private. Instead, it fiddles with interest rates and money supply. And it blows the biggest international megabanks up bigger and bigger, constantly bailing them out with electronic reserves which they turn into deposits, with which they don't lend, either, but rather speculate.

To end this anti-growth curse which has produced stagnation in our real economy since the 2007-08 financial crash, the Federal Reserve must be replaced by a National Bank, and the Wall Street giants cut down to lending size by restoring Roosevelt's Glass-Steagall Act.

FIGURE 3

Deposits and Loan Credit in the U.S. Banking System

U.S. Dollars



Consider **Figure 3**, which *EIR* has presented before, but is crucial because it pictures the destruction of productive credit by the concentration of bigger and bigger megabanks in the Federal Reserve's nursery. In the 14 years after the global financial crash of 2008, loan credit outstanding from all U.S. banks combined rose by roughly $4 trillion, while deposits in those banks increased by $11 trillion—historically, a new phenomenon. All those additional deposits were provided to the banks by the Federal Reserve, in the form of electronic excess reserves—overwhelmingly, to the 12 largest U.S.-based banks, which grew in size by 40% in that period.

What did the megabanks do with all those added deposits, in order to avoid lending them to real sectors of the U.S. economy? Well, in 2024 the six largest Wall Street banks alone had more than $3 trillion placed in hedge funds. Just three giant banks—Goldman Sachs, Morgan Stanley, and JPMorgan Chase—had put nearly $2 trillion from those deposits in 3,400 different hedge funds! These megabanks are "prime brokers" for those 3,400 prime speculators.

Add in similar investments in other prime speculators—money-market mutual funds—and one has accounted for more than $4 trillion of that missing, "unloaned" $7 trillion in new deposits. Again, the total new deposits those banks "grew", in less than two decades, was $11 trillion, stuffed into them by the Federal Reserve in order to "provide the banking system adequate liquidity".

This means that what the Wall Street megabanks did with all those deposits, perversely to avoid providing credit to economic factors, was *exactly what the Glass-Steagall Act prohibited them from doing* while it was in full force for nearly 60 years. The Federal Reserve provided the huge mass of new deposits; the repeal of Glass-Steagall in the 1990s licensed the banks not to make them into economic credit.

Under Glass-Steagall, commercial banks were to accumulate deposits and make economic loans. Prime brokerage was prohibited to them; ownership or lending to speculative securities operations were prohibited to them; as the Supreme Court put it in a landmark 1971 ruling, commercial banks were to be "saved from themselves" (their speculative temptations) by Glass-Steagall.

The only time in the Federal Reserve's 100-plus years, that the American economy had credit really to grow, innovate, and aid other nations' growth, was when FDR's Reconstruction Finance Corporation muscled the Fed aside as the national economy's big lender. That period, roughly 1935-65, is known to economists as the "golden age of American productivity". During that entire period the Glass-Steagall Act was in full effect and was enforced.

So, let us nationalize the Federal Reserve Bank into a National Bank for Infrastructure and Manufactures; and let's restore the Glass-Steagall Act to full force right away.