Debt Moratorium by Nancy Spannaus

Hamilton turns debt into credit

An essential part of the reorganization of the U.S. debt was the establishment of a national bank.

The first part of this series appeared in this column on Dec. 25, 1984. The first step in U.S. Treasury Secretary Alexander Hamilton's plan for putting the finances of the United States on a sound basis was to reduce the interest on, and extend the term of, the public debt by turning it into bonds. The second was to create a national bank.

One part of the capitalization of the national bank was the public debt of the U.S. government. The rest was subscription from private citizens or foreigners—Hamilton was careful to ensure that no foreigners ever gained a controlling position in the bank.

Foreign creditors were, however, encouraged to invest in the national bank, as a means of making their money a contribution to the increasing wealth of the nation, reducing their immediate demand for payment, and thereby guaranteeing their eventual repayment.

It is precisely this kind of national bank which Lyndon LaRouche's plan for financial reorganization recommends not only to the U.S.A., but to those Third World republics struggling for development.

Hamilton had to deal with a certain resistance within the U.S. population to the banking community—an understandable prejudice, given their experience with the British looting institutions. Therefore his *Second Report on Public Credit* lays out the advantages of a national bank.

First, Hamilton argues, a bank will augment the active or productive capital of the country. "Gold and Silver, when they are employed merely as the instruments of exchange and alienation, have been not improperly denominated dead Stock; but when deposited in Banks, to become the basis of paper circulation, which takes their character and place, as the signs or representatives of value, they then acquire life, or, in other words, an active and productive quality."

Let us not confuse Hamilton with Keynes, however. By increasing circulation of money, what Hamilton had in mind was to specifically apply those resources to trade and industry. "And thus by contributing to enlarge the mass of industrious and commercial enterprise, banks become nurseries of national wealth: a consequence, as satisfactorily verified by experience, as it is clearly deducible in theory."

Besides this fundamental reason—an increase in the nation's real wealth—Hamilton also notes that a national bank gives "greater facility to the Government in obtaining pecuniary aids," and facilitates the payment of taxes.

The Treasury Secretary then turned his attention to those who attacked the establishment of national banks. Banks were accused of increasing usury, preventing other kinds of lending, furnishing temptations to overtrading, affording aid to ignorant adventurers, giving bankrupt and fraudulent traders a fictitious credit, and banishing gold and silver from the country.

The last "hard money" argument is perhaps the most representative of those today who argue that the role of the government in finance should be cut down, except to facilitate the payment of debts.

Hamilton takes this argument seriously, and answers it on the fundamental level—that the real wealth of a country depends on putting into motion an ever greater quantity of both labor and industry.

The most common answer to the argument about banks tending to banish gold and silver, Hamilton says, is not destitute of solidity. This answer says that "the intrinsic wealth of a nation is to be measured, not by the abundance of the precious metals, contained in it, but by the quantity of the productions of its labor and industry."

There is a more conclusive answer, however, Hamilton says. "A nation, that has no mines of its own, must derive the precious metals from others; generally speaking, in exchange for the products of its labor and industry. The quantity, it will possess, will therefore, in the ordinary course of things, be regulated by the favourable, or unfavourable balance of its trade; that is, by the proportion between its abilities to supply foreigners, and its wants of them; between the amount of its exportations and that of its importations. Hence the state of its agriculture and manufactures, the quantity and *quality* of its labor and industry must, in the main, influence and determine the increase or decrease of its gold and silver.

"If this be true, the inference seems to be, that well constituted Banks favour the increase of the precious metals. It has been shewn, that they augment in different ways, the active capital of the country. This, it is, which generates employment; which animates and expands labor and industry. . . ."