The American economic model for financing infrastructure

by Nancy Spannaus

The first question raised by many politicians who have been briefed on the LaRouche plan for a crash program of reconstruction in the Balkans, has been predictable: How can we pay for it? That is usually followed by the statement that "we can't afford it."

In the outline on Balkan reconstruction we published last week, author Lothar Komp described the model of the Marshall Plan, and the German Bank for Reconstruction which went with it, as an example of how such funding is possible *without* a country indebting itself on the international capital markets. But, there are many other useful examples, starting with the United States itself.

Alexander Hamilton's National Bank

Alexander Hamilton, first Treasury Secretary of the United States, pioneered the successful use of large-scale state credit generation, issued in connection with a national bank. Unlike today's Federal Reserve, the First National Bank, established in 1791, served the interests of the public by making credit available to bankers for the purpose of funding improvements in infrastructure, agriculture, and manufacturing. Although Hamilton's full program, expressed in his *Report on Manufactures,* was not adopted, for 20 years the Bank of the United States provided a credit system that facilitated such activity.

The Second Bank of the United States, chartered in 1816, eventually became an even greater success.

The way national banking works is as follows:

National banks are empowered by appropriate acts of government, to issue a certain maximum amount of new currency notes, which amount corresponds roughly to an estimated margin in additional employment and additional production which can be set into motion by the government's economic policies. These are long-term, low-interest loans, and can go through two channels:

1. The National Bank can issue credit directly to the government or appropriate state entities responsible for the projects desired, which will in many cases be major infrastructure projects such as power plants, railroads, water management systems, and the like. This credit would be employed directly for equipment, materials, and labor costs employed in these projects, as well as for payments to private and public subcontractors which may be hired to carry out various parts of the work.

2. The National Bank can provide low-interest credits, mainly through participation in loans granted through the private banking system, to industrial firms producing equipment and materials for infrastructure projects, to help them expand and modernize their operations.

The issuance of new credit in this way creates what we may call a chain reaction of increased production and employment. To see how this works, imagine the construction of a railroad, which is financed from the national budget plus new credit issued for such projects by the National Bank. Part of this money, say 40%, is paid out directly in salaries of workers; 50% goes for purchase of rails, concrete, construction machinery, fuel, and so on, and 10% goes for various overhead costs. The 50% in material and equipment outlays goes out in the form of orders placed by the state entity managing the project, to industrial firms. This money now creates a new cycle of production and employment. Part of the sum goes to salaries of industrial workers; part to purchase of raw materials, semi-finished materials, and equipment; part to overhead; and part to profit of the firm. By means of the tax system and various regulatory measures, we ensure that most of that profit is reinvested in the form of improvements in equipment and technology.

Each new set of purchases sets off a further cycle of production and employment, and also, by increasing wages, tends to stimulate the consumer sector.

How does this increase in economic activity actually create new wealth, of an amount larger than the currency placed into circulation? First, employing those unemployed or misemployed creates more wealth. Second, the creation of infrastructure will improve efficiency in the economy as a whole. And third, to the extent that the investment is at the high end of the technological spectrum, it will generate demand for these goods, and for the development of even newer high-

technology products, that will increase productivity, and thus real wealth.

(Parenthetically, for those concerned with national budgets, the creation of this new wealth also increases tax revenues, without an increase in the rates of taxation.)

Hamiltonian principles in action

The national banks of the United States, unlike those in many other countries, seldom financed infrastructure projects directly. They tended to operate through publicly licensed utilities, or semi-public agencies. After the British financial interests succeeded in destroying the Bank of the United States in 1832, the national bank was never revived. But, Abraham Lincoln, who supported creation of a national bank, used the "greenback" system to generate state credit in order to finance the war, and, most important, the transport and other infrastructure required to win the war and the peace. "Greenbacks" were state credit, without a national bank.

In the late 1870s the British-dominated financial interests took over, and credit generation went back into the hands of British-allied Wall Street financial houses. This arrangement was modified slightly through the creation of the Federal Reserve Bank in 1913, which formalized control by private bankers over the money supply.

The revival of Hamiltonian methods was crucial to the recovery of the United States economy from the Great Depression of the 1930s. The Franklin Delano Roosevelt recovery was accomplished with the use of state credit generation on a gigantic scale, to finance infrastructure projects all around the country, and to rebuild the industrial and agricultural base of the United States.

Franklin Roosevelt did not directly establish a new national bank for this purpose. Instead, he employed a variety of means, including massively "bending" the policies of the Federal Reserve, to achieve a broadly Hamiltonian result. Separate corporations were established, which were empowered to issue notes, bonds, and other obligations, guaranteed by the United States, up to a certain set limit. The Treasury in some instances was authorized to purchase obligations of these corporations, which proceeded to pour tens of billions of dollars of credit into necessary projects.

Credit without inflation

Economist Lyndon LaRouche has written a great deal over the last 25 years on the question of paying for needed infrastructure development. The critical link is that between the issuance of currency notes and specific economic projects. In other words, a national banking system must avoid at all costs the creation of "fiat" credit, limiting it instead to funding the necessary projects for economic growth.

This is a policy of *directed* credit, giving priority to the physical economic projects which are required for economic and scientific progress. What must be accomplished is analogous to what was done in a different way in the NASA crash program of the 1960s, which generated technologies with a payback to the U.S. economically of some $14 for every $1 spent.

In order to effectively participate in the Balkan reconstruction program, for example, the U.S. government would have to find the means to issue massive amounts of such directed credit, upon the receipt of orders from the Balkan region, in order to start up production for export of needed materials. Such credit issuance would lead to the revitalization and expansion of export industries in the United States, including, but not limited to, steel, machine tools, railroad construction, and the like.

Such a mechanism, however, cannot and should not be restricted to the United States. The launching of crash economic reconstruction programs, like that in the Balkans, begs the question of establishing such national banking systems in all participating countries—shunting to the side the predatory international financial institutions, and the private international bankers, who have consistently sabotaged such grand projects, and have brought our financial system and economies to ruin.

Correction

In last week's issue, "The Coming Hyperinflation Crisis," **Figure 4,** p. 29, was graphed incorrectly. We publish here the corrected graph.

FIGURE 4
U.S. money supply (M3)
(trillions $)