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From Panel 2 A Global Financial Crash, or New Credit Systems?

The Hamiltonian Revolution and FDR's Glass-Steagall

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The most pressing challenge facing the world right now, is rapidly reversing the general economic breakdown that is driving the world into war. It can be done, but it will require abandoning the general axioms of political economy that have prevailed for the past three decades.

Paul Gallagher has described the economic crisis that has come from those axioms. Let me single out one symptom of the crisis: under-investment in infrastructure. Infrastructure is not just another part of the economy: it is the platform on which the economy functions to meet the current and future needs of the population. The neo-liberal financial policies that have taken over since the 1971 collapse of the Bretton Woods system have failed to produce the infrastructure that the world needs. Instead, the waves of speculation unleashed by financial deregulation siphoned investment away from all of the priority sectors of the physical economy, especially infrastructure, and pumped it into speculative bubbles—the financial markets, commodity markets, housing bubbles and the big one, the global derivatives bubble—that have been bursting since 2007-08.

There is now a consensus, worldwide, on the urgent need to invest in infrastructure. In Australia, the so-called “infrastructure deficit”, that is, what should have been spent but wasn’t, has been put at over *$700 billion*. U.S. experts have for a long time warned of the parlous state of its infrastructure. In the 2009 documentary “The Crumbling of America”, the American Society of Civil Engineers documented the advanced state of collapse of America’s bridges, dams, water and sewerage systems, power grids, etc,. after decades of what they call “deferred investment”. U.S. infrastructure spending at the end of the Eisenhower administration in 1961 was 12.5 per cent of the domestic budget; by 2009 it was 2.5 per cent, compared to China’s 9 per cent. The engineers estimated it would take $2.2 trillion over five years just to repair America’s existing infrastructure to an acceptable level, let alone build more. But when Congress passed the $800 billion stimulus bill in 2009, only $72 billion was earmarked for infrastructure. European nations have similarly under-invested in infrastructure, so in the UK, for example, the economy outside of London is in desperate need of infrastructure and an economic recovery more generally. This is the main factor driving the independence movements in Scotland and Wales.

And, of course, much of the developing world, particularly Africa, has been blocked from developing infrastructure on a scale commensurate with their needs, which has condemned many nations to seemingly endless poverty. It is worth noting

that much of the destruction caused by severe weather events that nowadays gets blamed on climate change, is in fact the result of poor and decaying infrastructure.

So, faced with this challenge, what can be done? Most nations are mired deep in debt. Haven't we run out of money? Just take Australia: we have a $50 billion deficit. How could we afford $700 billion for infrastructure?

The solution to this challenge requires understanding the false premise underlying these questions, which is that money is necessary to build infrastructure. It is not, and this is not a theory: the first Secretary of the Treasury of the United States, Alexander Hamilton, demonstrated this to the world 225 years ago. In so doing, he designed a unique system of political economy, called the American System, which, when used, drove America's spectacular development in the 19th and 20th centuries into the most powerful nation in the world, and inspired other nations, including Australia, to emulate them.

However, before getting into the details of Hamilton's American System, let us first look at the other ways that experts today are proposing to address this infrastructure challenge.

First, the least controversial, but also most unlikely, way to fund infrastructure is through taxes. This approach is limited at the best of times, but it is especially limited nowadays in this era of steep budget deficits. Infrastructure is expensive, and long-term. Funding it out of short-term tax revenues is so difficult, that it is usually relegated to the end of the list of priorities, to become "deferred investment". In truth, those who insist on funding infrastructure this way do so in order to ensure the infrastructure is never built. Take, for instance, the latest incarnation of a fast train from Melbourne to Brisbane.

The Gillard government in 2013 announced that it was a feasible project, but that it would cost $114 billion, and take 50 years to build! They projected its completion would be in 2065. Almost by definition, a project over such a long time frame would never be built. And the reason for this ridiculous estimate is that it was to be funded out of the annual budget. Remember this example tomorrow, when you see Jeremy Beck's presentation on the infrastructure China is building around the world.

A second way that is proposed to finance infrastructure is through private investment, or a combination of private investment and public funding—so-called Public-Private Partnerships. This is all the rage in recent times, pioneered by Australia, actually, through schemes cooked up by Macquarie Bank. Investment banks and managed funds all over the world have teamed up in an organisation called the Long Term Investors Club (LTIC), which boasts of having over $90 trillion under management, which they are seeking to invest in infrastructure projects. On the face of it, this intention sounds good—a win-win for investors and governments. But it is far from so, and Australia is the proof of that.

Private investors do not fund infrastructure for infrastructure's sake; they want a return, and the highest returns possible. Banks such as Macquarie that specialise in this business prey on investment opportunities that they can structure to ensure the highest returns; they therefore tend to invest in toll roads, privatised utilities and

similar infrastructure—ports and airports are also favourites—which are effectively localised monopolies servicing a captive market, on which they can whack hefty user-charges that cannot be avoided. Macquarie pioneered toll roads in Sydney, winning generous, multi-decade concessions from the government that in some cases ensured that "competitive" infrastructure such as public transport rail lines would not be built parallel to their toll roads; Sydney is now criss-crossed with these toll roads, but traffic congestion is as bad as ever.

Here are the biggest problems with privately funded infrastructure:

- Whereas infrastructure is supposed to boost productivity, which makes economic activity cheaper, the hefty user-charges on toll roads and airports end up making the infrastructure an economic burden on the user.
- Infrastructure should be built for the future, so its capacity should always exceed current demand, but private infrastructure seeks to maximise immediate returns, so it is often intentionally built only to meet current demand, if that, and is equally often soon overwhelmed. Toll roads get built with three lanes each way, instead of six or eight, and later the users suffer extreme inconvenience, and cities slow to a crawl when extra lanes have to be added. This decreases productivity and increases real costs.

A third way to fund infrastructure is by governments borrowing money from private investors. Again, on the face of it, this is not the worst idea in the world, especially in today's economic climate. A lot of investors are so desperate for financial security above all else, that they are keen to lend to governments; the interest rates on government bonds have probably never been so low. The Australian government went from zero net debt in 2007 when Kevin Rudd was elected, to around $300 billion in net debt today, thanks to the deficits and stimulus the governments ran as a result of the global financial crisis. If just a portion of that borrowed money had been invested in nation-building infrastructure, such as the 18 major water projects that the CEC proposed in 2002, which were estimated would cost $40 billion, Australia's economy would be very different today—enjoying real prosperity.

However, as good as this sounds, there is a danger with this approach. Most private money that goes into government bonds is not invested by individuals, but by fund managers and banks working in tandem, or you could say hunting in packs—the so-called financial markets. The financier-elite who dominate these markets are of the conviction that they are a power above governments, and should dictate to governments. Their ideological stooges in many governments share this conviction. In April 2012 Joe Hockey, then Opposition Treasury Spokesman, gave a speech to the Thatcherite Institute for Economic Affairs in London, in which he endorsed the banks dictating austerity on the nations of Europe: "In today's global financial system *it is the financial markets, both domestic and international, which impose fiscal discipline on countries*," Hockey said. "*Lenders have a more active role to play in policing public policy* and ensuring that countries do not exceed their capacity to service and repay debt."

Presently Egypt is consciously guarding against this danger with regards to its Second Suez Canal project, to avoid a repeat of the fight over control of the original Suez Canal. To ensure its sovereign control of the project, the Egyptian government is funding it through loans exclusively from everyday Egyptian citizens. This is a win-win-win: the government puts the people's money to work on a project that creates jobs and improves their lives; the money and repayments stay in Egypt boosting the domestic economy; and Egypt isn't obligated to the London and Wall Street elite or their agents in the IMF and World Bank.

Alexander Hamilton and the American System

Let us now turn to a fourth way of funding infrastructure, but which doesn't actually belong on the list, because it is a revolutionary advance on the assumptions underpinning all three previous options we have so far discussed. They are all options within a monetary system; we will now discuss Alexander Hamilton's American System of Political Economy, which was actually an evolutionary leap forward, if you will, from a monetary system to a credit system. Hitherto I've used the term "money", but now we must think rigorously, so that we understand the concept of "credit".

The LaRouche Political Action Committee's 2013 "Draft Legislation To Restore the Original Bank of the United States" provides the following contrasting definitions of monetary and credit systems:

"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 the intention of, and 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."

Hamilton's thinking during the American War of Independence and afterwards was influenced by a century of conflict between the American colonies and their far-away overlord, Great Britain, over control of their currencies. The British insisted that currency had to be specie—gold and silver coins. The argument was that only such specie currency would be "sound", but in truth it kept the colonies under tight control. It also suffocated the colonial economies. Gold and silver mainly came by ship from Europe, so the natural daily economic activities of farming, hunting, trapping for the purposes of trade was severely restricted by an insufficient supply of currency. Colonists had to resort to inefficient bartering, etc. Determined to develop, colonial leaders thought this issue through, and realised that although short of currency, they had plenty of wealth: fertile land and plentiful resources, and skilled farmers, fishermen and tradesmen to produce wealth. So what was money, but a medium of exchange for the wealth they already possessed, and not wealth in and of itself?

Part 2 of the EIR *World Land-Bridge* report, "Financing the Global Land Bridge 2064", provides the history of the development of the American colonists'

thinking on this issue over the 120 plus years from 1652, when Massachusetts minted its own coin, the Pine Tree Shilling, against the wishes of the Crown; to explicit proposals to establish colonial banks that could issue bills of credit, not metal coins, as the medium of exchange; to the common use of such bills of credit and the Crown's repeated crackdowns; and ultimately to the colonists declaring independence in 1776, an action provoked in no small part by this conflict over financial systems.

In 1795, Alexander Hamilton wrote the following definition and explanation of public credit, informed by the history of American thinking on this issue which he knew well:

"Public credit has been well defined to be 'a faculty to borrow, at pleasure, considerable sums on moderate terms; the art of distributing, over a succession of years, the extraordinary efforts, found indispensable in one; a means of accelerating the prompt employment of all the abilities of a nation, and even of disposing of a part of the overplus of others'...

"...it 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.

"It is matter of daily experience in the most familiar pursuits. 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." (Alexander Hamilton's final report to Congress, 21 Jan. 1795.)

Just as we heard earlier, Hamilton is saying that credit is giving value to future production. Any individual can credit anyone's efforts, but Hamilton knew that no entity is better equipped to provide credit for future wealth than the government, which can back its credit with the resources of the entire nation.

This is the attitude with which he confronted the enormous challenges facing American after its victory in the War of Independence in 1783.

It was no small task. The new republic was so heavily in debt, that it was effectively bankrupt, and vulnerable to Britain's ongoing financial warfare. Thomas Jefferson and his allies had produced a first constitution which left the central government weak and powerless over the 13 states. In this period, the Bank of North America failed, because the national government was not strong enough to support the national bank. Hamilton was part of an opposing faction, including Ben Franklin, which organised a new constitutional convention that produced the U.S. Constitution that is still in effect, ostensibly, today. This constitution gave the federal government real power, to direct a unified nation, as opposed to a jumble of states. George Washington was elected as the first president of the USA, and he chose Hamilton as

his Secretary of the Treasury. They assumed office, and the new Congress commenced, in 1789.

Hamilton was determined that America should honour its war debts, which he called the price of liberty. But he knew that organising the government and the economy so that it was capable of paying the debt, would require institutions and policies and a focus on development that would set America up for a prosperous future. In 1781, he had made the amazing declaration to banker Robert Morris, who helped finance the revolution, "A national debt, if it is not excessive, will be to us a national blessing."

The USA in 1789 had $42.4 million in domestic debt, $11.7 million in foreign debt, and the 13 individual states had $21.5 million in debt between them. Hamilton's first act was counterintuitive: he *increased* the national debt, by taking the responsibility for paying the states' debts, onto the federal government. Such an action would be unthinkable to the unbalanced minds of today's monetarists who are obsessed with debt and balanced budgets, but it was key to Hamilton's plan. He intended to make the U.S. government's pledge to honour that debt so watertight, that it turned this national liability into a national asset.

Here are the technical details of how Hamilton achieved this. He raised a new loan for the whole amount of the domestic and state debts combined, $63.9 million, *from the existing debt holders*. They were asked to turn in the debt certificates that recorded their claim against the government, for which they were given new debt certificates, but at a lower interest rate of 4 per cent compared to the previous 6 per cent. In other words, Hamilton refinanced the debt on better terms, by rolling it over.

The reason that this was an attractive proposition to the existing debt holders, was that Hamilton tied this new loan *directly to the means of paying it*. This was something of an obsession of Hamilton's: he called it a "fundamental maxim, in the system of public credit of the United States, that the creation of a debt should always be accompanied with the means of its extinguishment." In principle, this means that credit should be directed into productive endeavours which will create the wealth that can pay it back. Hamilton applied this principle by including, in the same 4 August 1790 Act of Congress that authorised his new rollover loan, provisions that allocated the government's tax revenue to paying back this new debt. Thus, when citizens exchanged their old debt certificates for the new ones, they knew that the repayments on that debt were the government's priority. Even at the lower interest rate of 4 per cent, the new debt was a better deal, because its repayment was assured, compared to the uncertainty of repayment on the old debt certificates that most had held since the Revolutionary War.

In Hamilton's words, this action "restored the public credit". Americans had such confidence in the new debt certificates, that they became the basis for an increase in the currency supply, precisely as Hamilton had intended. Gold and silver were so scarce that the economy was suffocating, but debt-holders could take their certificates to their banks to exchange for bills of credit that they could use as currency. There was no national currency, as of yet—the individual banks produced their own notes—but the government's IOU was as good as gold.

In keeping with Hamilton's maxim that the debt must be tied to the means of repaying it, Hamilton intended to harness this expanded credit in the economy, so it could be directed into productive activity that would increase the nation's wealth. To achieve this, he established a national bank. Hamilton was experienced in national banking, because he had started one during the war, the Bank of North America, which had been crucial to the war effort. But in the six years between the end of the war and 1789, the weak central government was not able to maintain this bank, and it collapsed. With the advantage of a much stronger national government, Hamilton knew a national bank would succeed.

The national bank, called the First Bank of the United States, started with $10 million in capital. Of this, the government paid $2 million in gold and silver to subscribe 20 per cent, and the balance of $8 million came from subscriptions from citizens. Hamilton's stroke of genius was to direct the expanded credit, in circulation in the form of the government debt IOUs, into this bank so that it could be further directed into specifically productive ventures. He achieved this by allowing the citizens who subscribed to the bank's start-up capital to use their existing debt certificates to pay three-quarters of their subscription. Thus, Hamilton recycled the original iron-clad pledge to honour America's debts, circulating as credit through the economy in the government IOUs, into $6 million of the $10 million capital of the new bank.

The First Bank of the United States commenced operations in 1791. It had sufficiently large capital, that the bank notes it issued became the new national currency. It loaned heavily to the Treasury to fund U.S. government operations, and to private borrowers in industry. In so doing, it didn't leave industry at the mercy of "the market" to meet its need for credit; the bank enabled the government to harness and direct credit into those areas. In his next report to Congress on 5 December 1791, Hamilton was able to comment on the impact the national bank was already having, by directing public funds into resource development, manufactures and commerce:

"...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... Industry in general seems to have been reanimated... there appears to be in many parts of the Union a command of capital, which till lately, since the revolution at least, was unknown..."And in his report to Congress that same year, he attacked the claims being made that the national bank's issuance of public credit was taking business away from the private banks—one of the arguments against national banking today—by pointing out that public credit complements private credit:

"If the individual capital of this country has become more adequate to the exigencies than formerly, it is because individuals have found new resources in the public credit—in the funds to which that has given value and activity. Let public credit be prostrated, and the deficiency will be greater than before. Public and private credit are closely allied, if not inseparable. There is, perhaps, no example of the one being in a flourishing, where the other was in a bad state. A shock to public credit would, therefore, not only take away the additional means which it has furnished, but

by the derangements, disorders, distrusts, and false principles which it would engender and disseminate, would diminish the antecedent resources of private credit." (Alexander Hamilton, 1795 Report on Public Credit.)

This, then, was the public credit system that Alexander Hamilton invented. A government which thinks money is wealth, and that such money is in finite supply, will always be subservient to those who control the supplies of money. But a government which understands that true wealth is the human creativity and technology and production that ensures the future growth of the economy, is not bound to the existing supplies of money. It is not limited to obtaining existing funds of money—whether through taxes or borrowings—to fund infrastructure. The government can, through the agency of a national bank, issue credit against the future growth that the infrastructure will generate.

Hamilton's national bank operated until 1811, and then another one, the Second Bank of the United States, operated very successfully from 1816 to 1836, when Wall Street killed it off. In the history of the USA and the world since, there have been periods when the American System was applied, with great success, but longer periods when it was suppressed, by private financial interests hell-bent on dominating governments. Let's look at two other U.S. presidents who successfully applied Hamilton's principles—Abraham Lincoln, and Franklin Roosevelt.

Lincoln's Greenbacks

Abraham Lincoln was a leading advocate of Hamilton's American System of political economy, his whole life. In 1832, when he was a young man campaigning for the State Legislature in Illinois, he would introduce himself when campaigning with a beautifully succinct statement of the American System: "I presume you all know who I am. I am humble Abraham Lincoln. My politics are short and sweet, like the old woman's dance. I am in favour of a national bank, the internal improvement system, and a high protective tariff."

When he was president, during the Civil War, he revived Hamilton's system to fund both the war and an economic development program that initiated the greatest burst of economic growth in world history, matched only by China's development in the last few decades.

At the time of his election in 1861, America once again had no national currency. Individual banks issued their own individual notes as currency. One of the problems this led to was counterfeiting, which got so serious that pamphlets had to be circulated explaining the genuine notes from forgeries. Not to be deterred, the counterfeiters simply counterfeited the pamphlets too. In short, it was a mess.

At the end of 1861, following the eruption of the Civil War, Wall Street ganged up with British and French lenders to deny funds to the U.S. government. This was a demonstration of Wall Street's relationship with the City of London, under the control of which the British had allied with the South. There is a parallel between this financial blockade of Lincoln's government, and the West's economic sanctions on Russia today. Incidentally, Russia supported Lincoln in the Civil War. However, the

banks miscalculated against Lincoln, being perhaps not fully aware of how conversant he was with Hamiltonian national banking. He simply took control of the currency, by issuing U.S. Treasury notes to be a circulating medium; unbacked by any gold or silver, as convention demanded, these were called greenbacks after the colour of the paper on which they were printed.

They were incredibly successful. All up, Lincoln's Treasury issued $460 million in greenbacks during the war, to fund a 300 per cent increase in government spending. The Treasury between 1862 and 1864 issued $500 million worth of 20-year bonds to fund the greenbacks. Very importantly, to ensure that banks and speculators would not be able to manipulate the currency that these bonds underpinned, the bonds were not tradeable. Lincoln also re-chartered state banks as national banks, to provide a network of financial institutions through which the government could direct credit.

Aside from financing the war, greenbacks also funded the commencement of the trans-continental railroads that opened up the interior to population and development, which drove such rapid economic growth that within a few decades the USA was the strongest and largest economy in the world. Alas, the assassination of Lincoln in 1865 took out a leading intellect of Hamilton's American System economics, and the Wall Street bankers reasserted control. Lincoln's successors in the presidency systematically reduced the circulation of greenbacks, until finally in 1879 the currency was again chained to gold and silver.

Roosevelt, Glass-Steagall and the Reconstruction Finance Corporation

Finally, let's look at how Franklin Roosevelt revived Hamiltonian banking to fund great infrastructure projects in the Great Depression.

Following the October 1929 stock market crash, American banks started crashing in their hundreds. President Hoover was captive to the Wall Street interests whose fraudulent gambling had caused the crash, so his response to the crisis was to try to bail out their banks, ahead of the millions of people whose lives were being ruined. He established a credit institution with the impressive name of Reconstruction Finance Corporation, not to fund reconstruction projects to create jobs, as the name implied, but to bail out banks. It failed miserably.

It wasn't until Franklin Roosevelt was elected in November 1932, that there was any intention to use the power of the government and public credit to address the crisis. The first signs of that intention came in the form of the Pecora Commission hearings, in the ten days before Roosevelt's inauguration in March 1933. A stubborn senator from Nebraska with a farming constituency chaired a committee that oversaw financial practices, but hadn't achieved anything of note. In the lame duck months between Roosevelt's election and inauguration, the senator was tempted to wind up the committee, but he persisted, and appointed a New York prosecutor of Sicilian heritage, Ferdinand Pecora, as the counsel for his committee. Often determined individuals can turn the course of history, and Pecora was such a person. Not a banker, he applied his lawyer's mind to the financial evidence in front of him, which

allowed him to see criminality where people trained in banking saw standard practices.

Pecora used his ten days of hearings to put Wall Street on trial, and ripped the mask of respectability off the leading bankers of the day. None more so than the President of National City Bank, Charles E. Mitchell, known as Sunshine Charlie for his Midas touch. This is a man who was at the pinnacle of financial power, on the boards of the top national and international companies, including, significantly, the American subsidiary of German chemical giant IG Farben, through which he was involved in consolidating the Bank of International Settlements as the central power over the world financial system to this day. (IG Farben, by the way, being the company that later used slave labour at Auschwitz for its production.) Under questioning by Pecora, the usually teflon Mitchell exposed himself as a stock swindler, tax evader and fraudster, and went to jail. Other leading bankers were also exposed and humiliated, including JP Morgan Jnr. In hearings broadcast on radio to an eager population, Pecora exposed the links between Wall Street and Congress, which had Congressmen ducking for cover.

The proceedings were followed closely by Franklin Roosevelt, who recognised that Pecora's revelations had Wall Street on the ropes, and so provided a rare opportunity for him to push through policies to rein in the private banking powers that once would have been impossible. Roosevelt changed his famous inauguration speech at the last moment, to add, following "we have nothing to fear but fear itself", the line, "Practices of the unscrupulous money changers stand indicted in the court of public opinion, rejected by the hearts and minds of men. The money changers have fled from their high seats in the temple of our civilization. We may now restore that temple to the ancient truths. The measure of the restoration lies in the extent to which we apply social values more noble than mere monetary profit."

Franklin Roosevelt, in his first 100 days following his inauguration in 1933, enacted sweeping reforms that did not fully revive the Hamiltonian credit system, but got very close to it. One of these laws was Glass-Steagall, which completed separated the commercial banks that serviced the real economy, from all forms of speculative investment banking. Glass-Steagall also set up the Federal Deposit Insurance Corporation to give government protection to the commercial banks. This separation ensured a functional credit system: the savings that workers put in their banks were only for normal lending to the home buyers, farmers, and businessmen of the real economy. This kept the credit circulating through the real economy. The FDIC insurance actually enabled the commercial banks to hold less capital in reserve, and thus increase the credit they could extend. As is well known, for the 66 years this law was in place, America had no major banking crises.

Another Roosevelt initiative was the SEC, the Securities and Exchange Commission. This was in the same spirit as Glass-Steagall: to protect those who want to invest their money, rather than just keep it in the bank, from the predations of speculators, by putting a guard dog on the financial markets. This way, even investment bankers would have an incentive to find secure investment opportunities in the real economy that can actually help the country.

Roosevelt was not able to achieve his policy of creating national credit banks for industry, which got blocked in Congress as Wall Street fought back, but he did the next best thing. He took Hoover's agency for bailing out bankers, the RFC, and put it to use funnelling public credit into the physical economy. Roosevelt knew that Congress would block funding for many of the infrastructure projects he intended to build to put people to work, but the RFC did not depend on Congress for funding approval, so Roosevelt funded his projects through the RFC. Initially authorised to lend $2 billion in 1933-34, the RFC by 1955 ended up lending $50 billion, all of which was repaid. It expanded its operations by borrowing from the Treasury, and by reissuing all of the repaid loans and interest as new credit.

LaRouche PAC's 2012 report *NAWAPA XXI* describes the scale of the RFC's operations:

"Its major operations were in reversing the mortgage meltdown, helping 20 per cent of mortgaged urban houses and refinancing 20 per cent of all farm mortgages; restoring food and energy commodity production; lending to industrial businesses for expansion; recovering exports and trade financing export of American capital; and later investing in the war-mobilization. The RFC achieved all of this by creating public corporations, banks, and associations, set up by the RFC, whose stock it owned, to lend to other sectors of the economy.

"Congress amended the RFC act, allowing it to lend to industry, and agricultural and municipal districts. Institutions which were designed to foster and direct public works, such as the Civil Works Administration, and its successor, the PWA, received limited shares of the federal budget. However, the RFC then acted as the institution of public credit for these limited federal programs, by loaning a total of $2 billion to these institutions to build the infrastructure projects that would be needed to raise the productivity of the nation. Loans from the RFC to the Federal Emergency Relief Administration and the Public Works Administration employed 3.1 million people a year, not including the multiplier effects. It also funded levee and irrigation districts for water management and flood control, teachers districts, aqueducts, bridges, water works, highways, housing developments, hospitals, schools, and more. Most of the loans were termed 5-20 years, all of which were paid back.

"The Rural Electrification Administration (REA), was created through RFC, financing 80 per cent of the 20-year loans which farmers would take out from local REA districts at 3 per cent interest. The REA received $40 million a year for ten years and increased electrification by 400 per cent between 1935-1939, at least tripling the productivity of now 40 per cent of American farms with electricity. By 1955, when the full effect of the REA and New Deal projects came on line, through such projects as the TVA, the Bonneville Dam, Grand Coulee Dam, and the Hoover Dam, this number rose to 88 per cent of farms."

Conclusion

In conclusion, the three instances of Hamiltonian public credit we have looked at were all applied during times of crisis, with great success. A crisis should not be a

prerequisite for resorting to public credit, but it often happens that way, because that is when the opponents of public credit, the private banking interests, are usually most discredited in the eyes of the public, and therefore politically weak.

We are now in another time of crisis. The world is plunging into an economic breakdown crisis that will destroy the power of the City of London and Wall Street and the economic consensus they have enforced on the world through the IMF and World Bank; in the face of this threat, the Anglo-American powers are going for war.

There can be no solution to this crisis, unless nations break with the monetarism that is the cause of the economic breakdown, and adopt the Hamiltonian principles of public credit instead.

The issue with public credit is less the mechanisms used, and more the intention for which it is used. Paul Gallagher has described the Hamiltonian overtones in the intention of the BRICS nations to create international credit institutions to finance economic development. Next, Craig Isherwood will cover the history of how the Commonwealth Bank was a Hamiltonian institution, used to develop Australia. When credit is harnessed by governments, and directed into development, it gives value to the future economic growth which supports us all, and is therefore the source of true wealth.