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Franklin Roosevelt's Credit Principle

The development of the Reconstruction Finance Corporation and credit budgeting

by Michael Kirsch

Part I of 2

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.

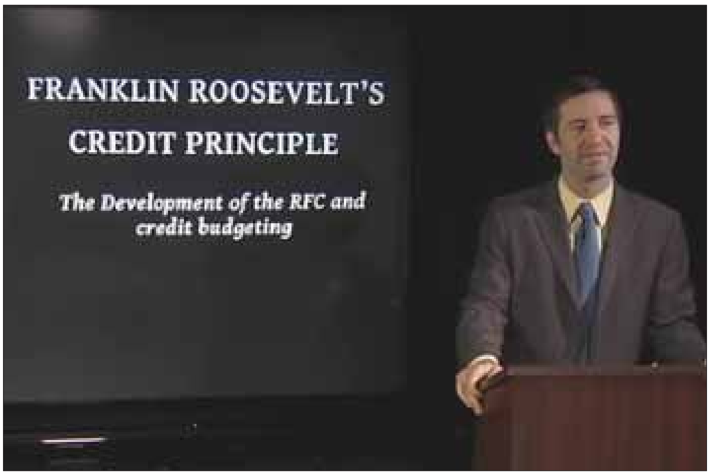
In fact, the idea of credit was the *essential fight* concerning all of Roosevelt's institutions: the idea of the existence of government credit, versus the Andrew Jackson simple machine of government and laissezfaire; whether there should be credit, or whether there should only be money and cash, where 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.[1]

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."



Michael Kirsch delivering the lecture on July 29, 2013, which can be viewed online at: www.larouchepac.com/node/27592

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 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 [http://larouchepac.com/restorethebank]," 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 wellpaid 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

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.

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.

Non-mechanical economic cycles; generalizing the principle of government credit

Each of President Franklin Roosevelt's credit lending institutions, like the National Bank, operated on the principle that they were to provide the possibility of a loan or the back up for an active agreement between the public and private sectors.[2] And a great example of that is the Commodity Credit Corporation. You see this characteristic in the Oct. 16, 1933 Executive Order by which it was created: .

Whereas, the Congress of the United States has declared that an acute emergency exists by reason of widespread distress and unemployment, disorganization of industry, *and the impairment of the agricultural assets supporting the national credit structure, all of which affects the national public interest and welfare*,

and

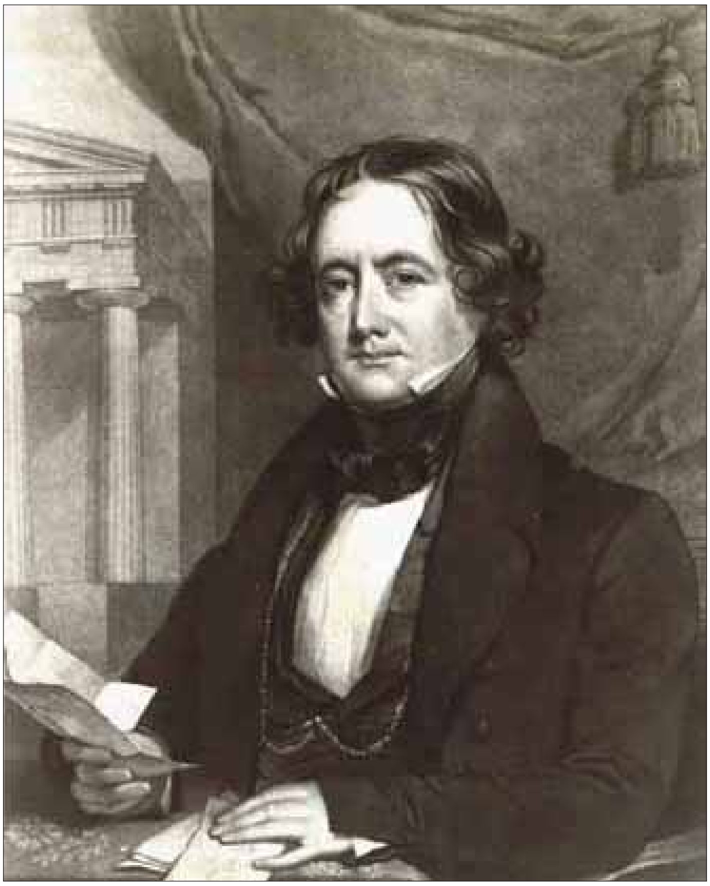
Whereas, in order to meet the said emergency and *to provide the relief necessary to protect the general welfare of the people*, the Congress of the United States has enacted the following acts. . . . .

It is this tone of voice, which you had not seen since the time of Lincoln, of a government willing to come out and say, *"We exist, we are a power, that is the purpose of the nation*; the nation is not set up for Andrew Jackson's 'simple machine,' laissez-faire, and the idea that we are going to become tools of a private financial power."

The Commodity Credit Corporation was an example of using the powers of Congress to create the necessary means to effect the objects: "To carry out the provisions of said acts it is expedient and necessary that *a corporation be organized with such powers and functions as may be necessary to accomplish the purposes of said acts. "*[3] There were laws that were passed, these various acts just referenced, and every law has objects and purposes that it lays out. And then the government has the power to come up with whatever the means are that will be the best way to effect those objects, which is actually discretionary. And therefore corporations are formed as the means to effect the objects of the laws.

Today the idea of setting up a credit corporation by the government is something people do not have a clear sense of at all, because they are thinking in a monetarist way. They are thinking, "What has happened has happened, and it's not our job to come in and control the process."

The Commodity Credit Corporation, on the other hand, was the idea of taking parties in the private sector, and allowing the cycles of each part of them to be delayed to effect a transfer of wealth, to allow the output of the different parts of the productive system to actually mesh in their cycles. Rather than the policy that if they do not happen to mesh, then they both go bankrupt, and the government says, "That's just the way things are."



Nicholas Biddle (1786-1844), nation-builder and president of the Second Bank of the United States.

The object of the Commodity Credit Corporation was to contribute to the support of farm prices by enabling producers to hold on to their products, which might otherwise have to be dumped with the resulting price declines. Roosevelt describes its purpose: "*to help the farmers of the Nation by lending them money on their surplus crops so that they might continue to hold them instead of dumping them on already saturated markets.*"

The role of credit came into play, in the form of this government credit institution, and made it possible for banks or other local lending institutions to lend money to farmers, so that they would not be forced to sell their goods immediately at a too low a price and flood the market. If the bank had discounted a bill of exchange for the farmer, but it needed the cash right away because of a demand *upon it*, then the Commodity Credit Corporation would purchase this bill of exchange that the bank was holding.

It was providing the context in which credit agreements could occur without the risk of total collapse, and, in reality, providing the context in which credit agreements could even occur. The cycle of the farmer could now be offset in order to ensure prosperity. And that was just one example, which a lot of these institutions reflected.

The direct comparison of this institution and the Bank of the United States is remarkable. Nicholas Biddle used the exact same language in 1811, when he was defending the first Bank of the United States during a debate in the Lancaster, Pa., House of Representatives. (Biddle was the third director of the Second Bank of the United States, who re-established Alexander Hamilton's system, with John Quincy Adams, in 1823- 25.) Speaking in the State House as a legislator in 1811, Biddle stated:

To my mind no principle of national economy is clearer, than that the most natural way of protecting the poorer classes of a society is by a [national] bank: an institution . . . *which enables the farmer to reserve his crops for a better market, instead of sacrificing them for his immediate wants*; and by loans, at a moderate rate of interest, relieves every class of society from the pressure of usury.

So you see *exactly the same idea*. You need a national credit institution which allows the economy to act on the time scale of the human mind. The human mind can know that this farmer is going to come to a season when he is going to have all of these goods, but that the rest of the economy is not ready for them at that time. Allowing these random cycles to determine what the prices are, and then to therefore collapse the living standard of your farmers and others, "just because," is inhuman, and is against the idea of government, as the representative of the people.

If the government decides it wants to make that process more coincident with mind, and guide the process, then it sets up a credit-lending institution. It is then guiding these relations, not only of agriculture, but transportation, production, etc. It was that whole system, which John Quincy Adams and Nicholas Biddle set up, which created a giant surplus by guiding different cycles of the economy, as Biddle did with the farming sector of the West. Bills of exchange, letters of credit, would be discounted in the western branches of the Bank of the United States, in his time, and then find their way east, where the merchants would be importing and exporting goods, and the Bank allowed the farmers to get the best prices for their goods.

By extending credit to the farmers, then, if they had a bad year, they did not have to sell off their farms because they had gone bankrupt. The nation was enabled to continue building the power of production: more farms, do not let the farms just collapse; more manufacturing, because of the credit from the bank; more internal improvements, because of lending for the canals.

Now what did this do? Biddle came in as Bank director in 1823 and reorganized the system. At this time, President James Monroe had agreed with Hamilton, regarding the powers of appropriation of money, "to lay and collect taxes." What does it mean "to lay"? It means to put down; you can put forward a bounty or duty, but you can also collect taxes. Monroe came around to agree that the government could appropriate money for canals, that this was implied in the powers given to government in the Constitution. Benjamin Franklin, at the Constitutional Convention, had wanted it to be an explicit provision, to have the power to appropriate money for canals. Monroe came around in 1823-24. He started the National Survey Act, and Army engineers started designing canals and railroads. In 1825, the Erie Canal was completed, but other states were also launching projects in 1823 and 1824.

When Biddle came in as Bank Director, as the patriot he was, he and his associated nation-builders, such as his close associate Mathew Carey, launched the biggest industrialization and overall increase of production that that the nation had seen up till then. And years into the process, especially under the Presidency of John Quincy Adams (1825-29), it created a huge national surplus from tax revenues.

Then Andrew Jackson came in as President, acting as a complete tool of Aaron Burr, Van Buren, John Randolph, et al.—the anti-nation-state interests, which I have written about and will go through in a different presentation. But the key point of relevance here is that Jackson moved immediately to pay off the national debt, which he was only able to do by the work of Biddle at the Bank, who made sure, through the credit operations of the Bank and the management of deposits and funds, that the nation could keep generating enough surplus productivity to maintain growth, while at the same time sink all of this debt.

There was no reason to pay off the debt so soon. All it did was slow down the growth that we could have had. It was fine to pay off a lot of the debt, because you have to make good on it sometime, but the reason Jackson was made to do so by his controllers, was to obtain the "justification" to then drop the protection against foreign laws which had been given to manufacturers; to drop the development of canals and rails, which Jackson opposed early on, in 1830; to argue that the sale of the public lands, which had given money to the Treasury for internal improvements (roads, canals, and rails), was no longer necessary, and that they could now be given away for free to the states; and to destroy the Bank, which was deemed no longer necessary to coordinate the economy to create a surplus, because we had now paid off the national debt.

Biddle, as the head of the Bank, spent years working to generate a real physical surplus, by coordinating the cycles of debt and credit throughout the economy, and organizing all of the assets of the branches of the Bank, and all of the assets of the government, in such a way as to maintain productivity and a physical surplus. Reading through Biddle's letters, and the history involved, one is presented with an absolute dedication and mastery of national economic cycles, managed day in and day out; the picture of a nation-builder looking at the whole economy in his mind, and regulating the Bank to generate this hard-earned surplus. And then these traitors, Jackson et al., look at the surplus as something that just happens to be there, randomly occurring, and decide to throw it all into paying off the debt immediately.

Involved here, is the distinction between monetary debt, as treated by Jackson et al., and credit debts, as Biddle used them, and as Hamilton did before him. The failure to understand the correct view of debt is something which Franklin Roosevelt addresses in his budget speeches.

FOOTNOTES:

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.

2. Roosevelt set up a group of credit institutions to promote the general welfare and to get the economy moving: the Commodity Credit Corporation; the Tennessee Valley Authority; the Public Works Administration to provide work relief on large public projects; the Agricultural Adjustment Act to restore agricultural income; the Emergency Farm Mortgage Act to save farms from foreclosure; the Emergency Railroad Transportation Act to help the railroad systems and to restore oil and petroleum from disaster; the Federal Surplus Relief Corporation to help farmers and the unemployed by purchasing surplus foodstuffs; and the Civil Works Administration for non-public works projects relief work, building schools, etc. Roosevelt wrote that all of these institutions were organized forms of self-help to allow the population to build their own way out of the crisis, with the hand of the government acting as a backing of the process, but not as a direct guide.

3. 1) The Agricultural Adjustment Act, May 12, 1933; 2) the National Industrial Recovery Act, June 16, 1933; 3) the Federal Emergency Relief Act of 1933, May 12, 1933; 4) the Reconstruction Finance Corporation Act, Jan. 22, 1932; 5) the Federal Farm Loan Act, July 17, 1916; 6) the Farm Credit Act of 1933, June 16, 1933; 7) the Emergency Relief and Construction Act of 1932, July 21, 1932.