AUSTRALIAN ALMANAC Vol.5 No 16

What is a Hamiltonian credit system?

Following is a partial transcript of the Wednesday, 11 June 2014 LaRouche PAC New Paradigm For Mankind Weekly Report*, in which LaRouchePAC editor Michael Kirsch explains the historical development of America's Hamiltonian credit system.*

Host, Liona Fan-Chiang: Today, we're sitting in the context of a publication of a very clear and concise go-through of a necessary recovery plan for today... Now, the publication, which you'll find on the website right now is very short, you should read it as soon as this show ends, if you haven't already. [http://larouchepac.com/node/31005] It's called "The Four New Laws To Save the U.S.A. Now—Not An Option: An Immediate Necessity." And it goes through four points, 1) Glass-Steagall must be implemented now. 2) We have to implement a credit system the way that Hamilton's National Bank worked, and the way that Lincoln's greenback system worked. 3) We need to use that credit system for immediate, high-productivity employment and infrastructure investment. And 4) we need a driver, a science-driver based on fusion.

So, we're going to go through today, and Michael Kirsch is going to help us, the second point, the U.S. credit system, and hopefully that will give us a clearer view of something, I think many people have a hard time understanding and that is a big problem.

MICHAEL KIRSCH: Thank you. Well, as you can see behind me here, a few characters which I've put on the screen to set the stage for a discussion of U.S. history, beginning with John Winthrop, Jr., going all the way up through Alexander Hamilton, and through to Lincoln.

But what I want to start with, to situate this a little bit, is that recently, Mr. LaRouche, you've been writing about the importance of the U.S. Treasury and the greenback system. And so I had an opportunity to go back and read through Henry Carey's letters to the incoming administration of General Grant and Henry Wilson who was his Vice President, and all of those who came in the aftermath of Lincoln's assassination, where there was an attack on his greenback system. And that transformation, from Lincoln's greenback system, which was a bit of a final, full establishment of the people behind me here [John Winthrop, Cotton Mathew, Benjamin Franklin, Alexander Hamilton], is a really good example for what we have to deal with today. Because what Henry Carey says, is this greenback system was finally a credit currency for the people as a whole.

But Hugh McCulloch, the Treasury Secretary, who sneaked in right before Lincoln's death, by pretending to be a disciple of Henry Clay and a protectionist and a nation-builder, quickly, about three months after Lincoln's assassination, quickly changed colours and did everything he could, to serve London and Wall Street. And he contracted the greenback currency with cries of over-inflation, over-trading, and especially, there's too much inflation, and attacked the people's currency and did everything he could to shackle us with gold bonds to England.

In reality, the Wall Street bank credit controlled the country at that time, continued to grow, so it was a complete sophistry by McCulloch, who later actually became a London banker. In saying publicly, the big problem is inflation of the currency, all he did is actually attack the people's circulation, the greenbacks, which there was never any overvalue of them. They were just right—there was not enough. But he let Wall Street continue to grow, and if you look at the post-Bretton Woods bubble, when the foreign export of U.S. dollars and the growth, then, of offshore London bank account dollars, which broke the Bretton Woods system, which created an inflation of the dollar, and the aftermath of that in the late '70s, Paul Volcker comes in and

Michael Kirsch

says, "we got to deal with this inflation." But what did he do? Nothing to go after the actual London/Wall Street control of international speculation and the growth of that, but instead he attacked the real economy of the United States, just like Hugh McCulloch did after Lincoln.

And as we see today, the same policy is going on: Destroy the economies of nation-states and the U.S., but do nothing about the actual control by Wall Street and the *real* inflation, in the derivatives market.

So this little bit of history is important for us to go back through, because we see again and again, the same lies all throughout and even earlier with Jackson. But, to present what's necessary for us to rediscover with the credit system, I want to start with John Winthrop and read some quotes for us, so we can discuss and see your reaction to it.

So the credit system in the U.S., beginning with the pine tree shilling, 1652, and fully established by Hamilton, in 1791, is really coincident with the establishment of the United States, that they're one and the same issue, and what Hamilton has set up, and you've been recently stressing his four major papers in your writings, was not really an issue of banking and money or credit, per se, it was more: what are the sufficient powers for a nation to draw all of its resources to act as a unified whole? And that the more closely the nation is committed, the nation's government is committed to see through the process of the credit that's emitted, the better certainty there is on that credit. And then, the more ability that credit between parties, government, the nation, industry, is actually able to serve as the means of payment, rather than money, as people think of money as something having value per se.

So the relation of the government's ability to control the resources of the whole, we'll see that this was the issue, from the colonies all the way through to Hamilton. Constantly the question of, what's the ratio of the control and the power of the government and the government being the utmost authority, and its relationship with the economy. So really, as we see with Massachusetts Bay and Hamilton, that the meaning of government and the credit system are completely coincidental, and the inalienable rights of man cannot be upheld, and the General Welfare cannot be upheld, without a credit system, because the means for all classes to move ahead and improve the power of their labor, their industry, that's a right. And without a credit system, you don't have that right.

John Winthrop, Jr.

So, first of all, John Winthrop, Jr. here on the far left: John Winthrop, Jr., comes over here, a few years after his father, John Winthrop comes, and he's the ironmaster who sets up Saugus Iron Works. He also studied desalination, and he was a great scientist, going out surveying the iron mines and all of that. But he also, which is little known, had a plan for a credit bank. And he wrote to the Royal Society in 1663, of a plan, called, "Some Proposals Concerning the Way of Trade and Banks, Without Money," and that this would answer all the ends which banks in Europe at the time, which used money, attained; and that this would be just as good as other currency.

Now, he had gotten a book from a fellow, William Potter, called *The Key of Wealth or, A New Way of Improving Trade*, and this is in 1650. And what's the discussion? The discussion is, there's not enough circulating currency, we can't have industry, we can't grow as a nation and a colony, so, he said, since people need this medium of exchange to purchase things, if we can come up with something else, besides gold and silver, but that can accomplish the same ends, then it would be just as well, wouldn't it? So he says, "By multiplying a firm and known credit among tradesmen, fit to transmit from hand to hand, it would be possible to increase trade."

So, he writes this book, which John Winthrop, Jr., gets his hands on, and in the book William Potter says, "Admit therefore, that several tradesmen of known and sufficient credit, do cause a certain number of bills to be printed, putting value on them, do lend the said bills to each other, upon no less security than if they were so much ready money, or gold out of the mine."

So you have the pine tree shilling in 1652, but the King kept attacking it, and saying "you can't have your own sovereign currency. I'm the King, so I'm the authority." They kept doing it anyway, but it was still never a sufficient amount, and people continued to write over and over, that there is a lack of currency, and when you have a lack of currency, you have depreciating values, you have more and more debts, you have usury, too much interest; whereas, when you have a sufficient currency, like we finally got with the greenbacks, you have increased trade, immigration, increased manufactures, low interest, etc. And Ben Franklin later writes about this.

But it's all the way back to 1650, this is the big problem. So, John Winthrop, Jr.'s plan gets promoted by somebody else, except by the Royal Society, but someone else to the colonies. So we accept this plan, in Boston, and there's some experiments with bills of credit, and a funny quote by John Winthrop, Jr.'s relative John Woodbridge, he says, "Intrinsic value is not essential to a thing merely good for exchange. Bank bills will affect the payments to all intents as well as plenty of coin." And then he says the problem with coin is that it can be hoarded, "piled up like dung in a heap, unprofitable. So what good is this gold and silver?"

John Winthrop, Jr.'s son, Wait Winthrop, in 1686, finally establishes, on paper and by law, through the city council of Boston, a bank of credit, and this is 1686, and they have the same plan, that everybody who wants to be partaking now in a credit currency, will just write that this note has the value of so much gold, and whoever wants to accept them now, can have a sufficient currency to trade with, and we'll all be in debt to each other on the credit of our intention to build things. So those who now had real wealth and capital, but didn't have gold, they had a mill, they could now pledge the value, say, of their mill, and then receive a certain amount of bills of credit, and increase the supply of their wool; or merchants could pledge their land, and then receive these bills to buy more additional commodities and so forth; shopkeepers could mortgage their shop, receive the bills of credits, and the mine owner could pledge his mine and then have enough bills to pay his workers who could then buy the things from the shopkeeper.

So this was all saying, let's take our actual value of our colony, and turn it into an ability to grow, and by simply coming up with this credit currency. And there's a beautiful summary to the bank's charter in 1687, and here you have John Winthrop, Jr.'s son, Adam Winthrop, Wait Winthrop, his cousin, and William Stoughton, they're all the ones who lead the revolution against Edmund Andros and the William of Orange revolution. And here's two years before that, they say: "By the bank, the trade and wealth of this country will be established upon its own foundation, and upon a medium or balance arising within itself, the lands and products of this country, and not upon the importation of gold or silver, or the scarcity or plenty of them, or of anything else from foreign nations, which may be withheld, prohibited, or enhanced at their pleasures. Our own native commodities will thus become improved to a sufficiency for our own use, and thereby afford a comfortable subsistence to many ingenious and industrious persons amongst us, who know not at present how to subsist. It will not be in the power of any, by extortion or oppression, to make a prey upon the necessitous."

So, sovereign credit bank. And this bank was not established because Edmund Andros was there, and he said, "no, shut it down," and then the tyranny of William of Orange's revolution.

Cotton Mather

Now, this young man, Cotton Mather, who, in 1690, he's only 27, he's heading up the colonial loan office, and in 1690, everybody's got their head in a state of "bewizzlement," as he writes, because they think that there's no more government of authority in the colonies. He says: Although we don't have silver, we can have credit that will allow us to buy all the articles we need as colonists, and the security of the paper money that we're going to issue as a colony, will be nothing less than the credit of the whole country. And Henry Carey later echoes that same thing about the greenbacks, that the loan made was by the whole body of the people.

So he's attacking these people who say, "I don't want to accept these bills of credit, I want my gold!" And the same thing in the John Winthrop bank, some people said, well, what if I want to turn these bills into gold? He said, no, no, these are for the people who don't have the money, we're trying to create a credit currency, but, everybody's going to accept them, because they're as good as gold. And Mather says the same thing; he says, you fools, these bills are the credit of the country as a whole, and you can pay them later in taxes, we're going to put them out, buy the things we need as a colony, and then you'll pay them in taxes later on. And he says, "The credit conveyed by these bills now circulates from one hand to another, as men's dealings are, until the public tax is called for." Discounts in accounts are as good as pay, so why do you need to get paid in gold so that you can go settle your debt with somebody; can't you just have a discount in your account? Isn't that just as good?

And he attacks gold in general, for the first time that anybody in the colonies had. He says, "Money is but a countermeasure of men's properties and instituted means of permutation," and that, the only reason it was used as money, was because we didn't know arithmetic and mathematics. But now that we all know that, we're civilized people, we should abandon the use of it as something in circulation, because there's no reason for it. So he's the first person to say, let's completely get rid of this, at all.

Now, in 1716, one of his followers, or he, an unknown author, said that: Now, let's just not issue these bills of credit for military campaigns, or things we need, but let's do it for the General Welfare. And there's a paper called, "Some Consideration on Several Sorts of Banks," and Cotton Mather or his follower said: "Let's emit large sums for what me benefit and of a general good, for the construction of public works and encouragement of industries." So here it is, 1716, "and we will also lay certain and stable foundations of increasing the produce of the country which is the interest of all nations." So, once again, we're going to issue sums now, to build a canal, that will decrease the costs of transportation. He says: We'll emit 100 bills, we'll save 1,000 every year. We'll set up an iron foundry, we don't want to be dependent upon England for iron. We'll set up a slitting factory for nails, we nails to slit the iron.

What happened? 1716, it didn't come to pass, because, again, the King of England said, "no banks"! And there was the great bubble in the 1720s.

So this problem continued, and people are saying there's not enough currency, there's not enough credit. Now, while they did continue to issue some bills of credit, sometimes it didn't work, because as Hamilton later says, it's the power of the government to follow through on the credit and to organize it which is the most important. And Benjamin Franklin's colony of Pennsylvania, was really a case in point, where he had the best credit currency, because he had a science of how to regulate it, and that it was closely tied to production and the quantity of labor in production. Sometimes, like South Carolina and New England, they would issue these bills to say, "we'll pay you later, and we're going to go to war," and then they would never get it back in the taxes.

But Rhode Island, they emitted it, to become the leading navigation country, and they said it was their emission of "bills of credit to supply the merchants with the medium of exchange, always proportioned to the increase of their commerce," which made them successful.

Now, there was a great, again as I said, there was a great crisis throughout this period, and the King of England came in and said "no bills of credit in the colonies, at all" in 1741. And Ben Franklin had set up his system in 1729...

LYNDON LAROUCHE: Paper money...

KIRSCH: Yeah, his paper money issue, and he says, "The wealth of a nation should not be based on its gold and silver but in the quantity of labor and capacity of production of which a colony is capable." So he had that set up, but this was now under attack, and they had a series of decrees, 1741, '51, and '64, and Ben Franklin was standing in England in 1764 when that decree was being made, and said that all colonial legislatures should be empowered to issue any amount of paper money, required for revenue, trade, business, agriculture, "but to be lent on collateral security, deficiencies guarded against by taxes, and interest on the loans be used in meeting current expenses." So what does he mean? He means that we need an actual government behind bills of credit: you can't just issue these things willy-nilly.


Ben Franklin

And that's what we saw during the Revolutionary War, which is the next point, the transition here, from Ben Franklin to Hamilton. Ben Franklin said this was a tax on the people. We needed to issue continental bills to win the Revolutionary War, but because we didn't have a government and the powers of the government, therefore what happened? The currency depreciated right away. We couldn't uphold their value, there was no taxes. And Ben Franklin said, I warned you all, I told you as a representative of the Continental Congress, before I left for France, here's the powers you're going to need to take if you're going to issue these bills.

So they didn't listen to him, so now the responsibility to deal with that problem fell on Hamilton's shoulders. So he's sitting in the middle of the war, saying: Well, that's not going to work, looks like we'll have to set up a credit bank, like John Winthrop, Jr. And him and Robert Morris, they set up a bank, which could, once again, create a means of exchange equal to the power of the economy, where farmers and merchants, when they come together, instead of leaving at the end of the day because they had nothing to trade their goods with, now, this credit bank that Hamilton set up during the war, in 1781, could basically—not monetize, but turn into a credit currency, the credit between the parties. So the bank could, like a miller and the baker, the bank would receive the intention of the raw material producer, who's received something from the manufacturer, say, we're going to turn that promissory note into a credit currency, which now we can circulate.

So this bank unified, therefore, the individuals in trade, commerce, and industry, with the resources of the government. And in fact, Hamilton's credit bank got us through the war, because we won the war, Yorktown in 1781; but they would have beaten us down to a pulp, if we hadn't had a credit bank that upheld the nation, and all we had was this depreciating currency. So we wouldn't have forced them to sign the peace treaty in 1783, without upholding the nation's credit, and Robert Morris and Hamilton, —there's not enough time to go through that, but they have a great correspondence, that restoring the public credit is the key to the nation. And that no currency is substantial without being a reflection of physical trade.

So what this does is this lays the basis, to say, what was defeated in 1686, what was defeated in 1740, and earlier, now, finally, because Hamilton and Robert Morris say: Hey! We just bucked the King of England, let's finally do what we wanted to do for the last hundred years, and we have the authority—we don't need money, gold and silver, what we need is the authority to say we can create a credit currency. So Hamilton did that, and then he realized we need all the powers because it didn't fully work, because we didn't have the powers of the government.

So we had this bank; Robert Morris resigns from the Treasury Secretary, even so, saying this is a disgrace to the nation, if we don't unite as a bunch of colonies, we're going to be like Greece and this is an atrocity on the people. So from 1783-1789, Hamilton works for, as he describes, "a well-proportioned exertion of the resources of the whole, under a direction of a common council, with powers sufficient to give efficacy to their resolutions." So, the Constitution and the credit system were one and the same: He needed these powers and he needed a nation unified as a whole, and he

Alexander Hamilton

needed to turn the real potential of the unified states into an ability to found this credit system.

And quickly, the three points on that, so, here we are, bankrupt, with huge debts, in the states, the nation, etc. and Hamilton's fundamental maxim, as he writes in the *Public Credit* report, is that, in the creation of a debt, the means of its extinguishment has to be incorporated. And what he did is, unlike Jefferson and Madison, who said let's just throw this debt out the window and we're revolutionaries, and besides, this is a great travesty on our soldiers, he said: This is the Philosopher's Stone, he's going to turn a worthless debt into the most valuable thing possible. And that's what he does. There's a million in gold and specie throughout the colonies—there's no currency, there's no economy—he takes all this so-called "worthless debt," and turns it into the means for 10 million in bank capital that can be leveraged for trade and industry and manufacturers—everything. And even more, there's like $50 million of U.S. debt. And so he raised the value of it by the intention to make good on it over time, and in the creation of it, by giving back all the people in the colonies their old, worthless certificates, by assuming and unifying the state and national debt, but then saying we're going to have a permanent tying together of the import duties and the domestic taxes, with the payment on the public debt; now the thing increases 300% in one year.

So, by him using the powers of the Congress that he had before, of all the regulation of trade, the power of taxation, now, the nation's resources can be unified with the currency. So, with August 4th, 9th, 12th of 1790, the Congress passes his recommendations for how to turn this seemingly worthless public debt, into an order of magnitude more, or even more than that.

But then, next thing is that, with the National Bank, now the public debt is housed in the National Bank, and now, he doesn't need any gold and silver, the *whole capital* of this National Bank is the public debt, which is the intention of the country to make good, by increasing its economy. And he actually increases the nominal debt, but he knows he's going to increase the real—he's going to put in motion what he calls the "active capital," in the *Manufactures* report. So, he says, "The funded debt served as the basis of the national currency." So, now that it was a unified process of making good on something, it wasn't a self-evident debt, now that funded debt could be the capital of this National Bank. So, finally, what did it do? It created the means of exchange necessary, for credit to be transferred among all parties, and there was a symmetry between the National Bank and the public credit, because now, the National Bank, by being established, gave a structure to this new medium of exchange, a credit currency. And it also increased the value of it, because of the direction that the bank gave and the real profit.

You know, people today, they think profit centers, they think private property and all that, but this was the real profit in loaning of the capital of the bank for industry, so people would want to get in on the real profit of the country that was growing. And this bank was in no way like the Bank of England, because the Bank of England was simply a public debt machine for the government of England; it would buy the government's debt. This bank, by Hamilton was forbidden, from buying and selling the U.S. debt. There was the debt in the capital of it, but that was it; and also, it was a commercial bank for the nation, whereas the Bank of England had no commercial role. It was just a debt machine for the...

So Hamilton writes in his *Public Credit* report, he says that "Public credit is among the principal engines of useful enterprise and internal improvement. As to substitute for capital, it is little less useful than gold or silver in agriculture and commerce, and the manufacturing arts." And he goes through how people purchase on credit on the intention to become a farmer, manufacturer, and "it is on credit that he is enabled to procure the tools, the materials and subsistence, by which he stands in need."

So this redefined the meaning of debt, the meaning of currency as a whole, and without his creation of this, we wouldn't have been a nation at all. But he established that entire national economy can be operated purely on credit. But one of the key issues that I'll just conclude with, here, is that, in this whole process, it's creating a currency that's internal to the nation-state. Whereas what does Cotton Mather say? He says that "silver is like a running swift river that comes in and out of a country." Ben Franklin says the same thing: We can't rely on gold and silver, because this is going to be exported immediately for imports.

As long as we don't have a nation that's manufacturing its own industries, which is what Hamilton's *Manufactures* report is about, attacking Adam Smith, and saying, we have to build our own economy and own industries here, then, as Hamilton describes in his *National Bank* paper, he says, "The precious metals will not abound in any country which has no variety of manufactures." Because if we're constantly importing from these foreign nations, all of our gold and silver were used to settle this negative trade balance. And you see that again and again, where Franklin says the same thing: We can't have an internal credit currency that's based on a gold reserve, and a National Bank, without having protection of manufacturing, that while, as Hamilton says in his report: While the National Bank will increase circulation and therefore promote industry and agriculture, you have to have protection, because otherwise you won't have that manufacturing to even promote with your National Bank.

And unfortunately, they didn't really accept Hamilton's *Manufactures* report, as you've said before, Lyn. And Mathew Carey says the great crash of 1819 was *because* of the fact we weren't promoting our own manufacturing! And Monroe was slow in the game, on that. So all of our gold and silver was constantly exported to settle the trade balance.

So you have a crash, and Nicholas Biddle then says the same thing, in 1811, that you have to keep your internal economy in the timescale of the credit system. The gold and silver is just a reserve, you don't allow your currency to be based on other nations' currencies, you have to have your own internal system. And Henry Carey says the same thing, later: "Whensoever British banks and bankers are inflating the currency, British manufactures flood our markets with goods to be sold at long credits." So every time we would not have protectionism, every time we would have free trade, and go back to the gold and silver system, we would lose our ability to have an internal currency, and the whole thing would crash. And Henry Carey says, that was the process throughout the 18th century.

And just to turn it over to you, then, that's the issue today, even with Bretton Woods, that destroyed the ability to have an internal currency.