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Part1b: Alexander Hamilton's National Banking System of Public Credit

From *NAWAPA XXI LaRouche PAC Special Report, March 2012, Section III How NAWAPA XXI Will Restore the System of Public Credit*
by Michael Kirsch

An explanation of the above aspects is now required.

Unlike the oligarchical banks in Europe, the system of public credit which Franklin, Morris, and Hamilton worked to establish, declared that money is a means to circulate physical wealth—that it is only a means of exchange, and *has no self-evident value outside the process defined by the sovereign government's intention, designating value for its purposes*. From early on in 1779, Hamilton's intention was to utilize the elements of banking for purposes entirely different from how they had been used in Old Europe—such as the imported Dutch speculation machine known as the Bank of England—and now meld the concept of interest with nation building, rather than usury.

The two chief functions of the National Bank, chartered as "The Bank of the United States", were, first, the creation of a medium of exchange in which credit could be transferred, and, second, the transferring of that credit, both for the exigencies of government, and the promotion of commerce, agriculture, and manufactures.

1. The Creation of a National Paper Currency

By designing the bank around the utilization of the newly funded debt, the bank's capital was sufficiently large to create a full currency of circulating bank notes, which were to be accepted as readily as the capital stock of specie and public debt on which they circulated. These became the new national currency. The bank notes represented the intention of the nation to develop, as they were circulating on the promise of the public debt, being funded by a functioning Executive and Congress. Without a National Bank, all the revenues of duties for the contracted payments of interest on debts, if made in specie, would be sitting idle, in preparation for payment. With the paper currency of bank notes, revenues can sit in the bank until the time of payment and in the mean time be a resource for further lending.

This uniform national currency of bank notes allowed the Congress to maximize the efficiency of making use of its Constitutional powers, while at the same time increased the ease and speed of commerce, which was before impossible. The Bank of the United States:

a) Created a unified medium in which duties and other taxes were collected, paid, and applied, while also facilitating a constant and predictable receipt of them, since the bank could make loans to assist individuals and companies in their payment;

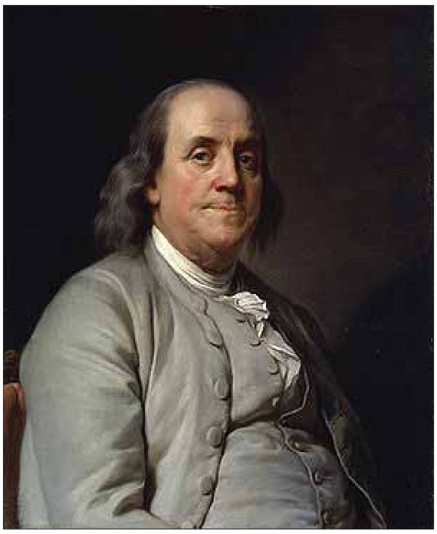
b) Aided in the regulation of commerce by relieving it from a fluctuating value of paper money, and varied representation of paper money between states, both of which served as an added expense to productive industry;

c) Facilitated the funding of the national debt, as the payments on the interest on domestic and state debts could be made in bank notes payable for specie on demand, greatly assisting the Treasury and increasing the currency in circulation.

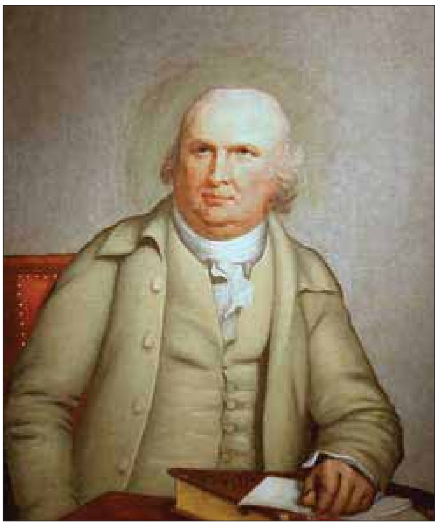
2. A Credit Fund Public and Private

In addition to serving as the means to create an efficient medium for the economy, the second chief function of the National Bank and its related state branches, was to serve as the mechanism for growth, utilizing the public credit established due to Hamilton's funding of the public debt, as the sufficiently large source on which citizens and companies could borrow.

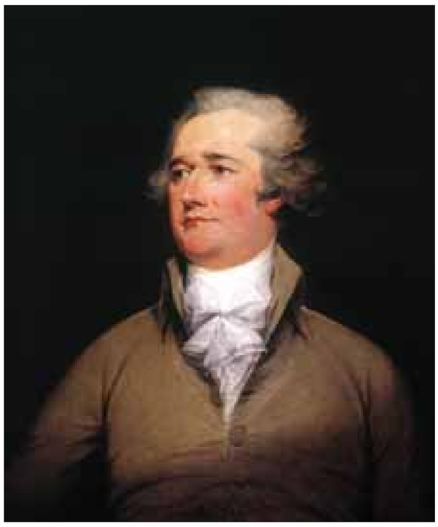
The government's 20 percent ownership of the capital stock not only increased the bank's ability to lend, but served as the chief source of government borrowing for its operations in the form of bank notes, increasing the currency in circulation. Crucial for maintaining the scheduled funding of the public debt, the Treasury borrowed millions of dollars from the bank during Hamilton's term as Secretary, making up differences in allocated revenues and sinking the principal of certain quantities of the issued certificates for the public debt, in order to increase its value. The increasing dividends of its share of the stock, above the amount of interest to



Benjamin Franklin



Robert Morris



Alexander Hamilton

Left.The First Bank of the United States was a national bank, chartered for a term of twenty years, by the United States Congress on February 25, 1791. (120 South Third Street, Philadelphia, Pennsylvania). Right. Bank of England in Threadneedle Street, London, formally the Governor and Company of the Bank of England, is the central bank of the United Kingdom and the model on which most modern central banks have been based. Established in 1694, it is the second oldest central bank in the world.

be paid out on the loan which was taken for its purchase, would also be of profit to the government.

The terms of funding the debt held by the creditors of the United States, were set by the sovereign nation; the United States was not submitting to a foreign power. Similarly, when the government borrowed from the National Bank, it was not going into debt according to the terms of a private bank, but a bank whose charter was created by the government, and whose capital was fused with the success of the government's finances.

Debt was redefined therefore as not merely a monetary debt, that was to be simply paid back in money saved, but reflected the whole process of unifying the resources of the national economy, with a currency that reflected the promise of a sovereign government. *As the power of the productive economy grew industry, so, reciprocally, did the National Bank's value of capital and the general value of the public debt. Therefore, when the government borrows from the National Bank, the government borrows from a source which is a representation of real industrial and agricultural growth, not from a piggy bank.* The bank's operations were strictly tied to the function of building the economy and to the capital which formed its stock.Three points written in its charter further clarify this:

a) Unlike the acts by the 1694 Bank of England or the Federal Reserve, Hamilton's National Bank could not buy government debt.[4] The government debt made up a large portion of its founding capital stock, and those who were holders of public debt could deposit it in the bank, further increasing the bank's capital stock, but the bank itself could not purchase debt or trade in debt, only in bills of exchange and coin. "The Bank is not at liberty to purchase any public debt whatsoever." The U.S. government therefore had complete control of the value of its debt.[5]

b) The bank could not loan indefinitely, and was restricted to the amount of its capital. As its initial capital was made up largely of the public debt, whose value consisted entirely on the act of engaging the process being discussed, this 1) directly tied the success and profits of the bank to the time in which the U.S. would be making good upon its debt, and 2) its lending in bank notes was being done on the value of the future promise of the public debt.

c) The bank could only make or receive large loans on the account of the U.S. government to and from state and national governments, and foreign princes or states, with the authorization by the U.S. government.

3. Increasing Capacity for Lending

a) The fund would serve as a depository for all government revenues collected or borrowed, being put to use as an increased bank capital and credit to be lent upon, benefiting commerce, and adding to the profits of the shareholders of the bank.

b) Formerly idle specie of other depositors could be put to use and magnified in loans by the bank for trade, and to the government.

c) As the six million dollars of capital stock of the bank accrued interest payments by the government, it would serve as a significantly increasing capital deposit and available capital for the bank.

d) Government purchases of the public debt, i.e. sinking the principal value of select certificates—which Hamilton thought was only permissible once a funding plan of the debt was in place—increased the value of the remaining public debt which formed the capital stock and deposits in the National Bank, and the like value of the circulating currency on its basis.

All of this would be an increased capability for lending for commerce, which subsequently increased circulating currency, allowing for more ease of trade.

Hamilton wrote in his next report to Congress on December 5th 1791 of the effects the bank was beginning to have on 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...

"...Though a funded debt is not in the first instance, an absolute increase of Capital, or an augmentation of real wealth; yet by serving as a New power in the operation of industry, it has within certain bounds a tendency to increase the real wealth of a Community, in like manner as money borrowed by a thrifty farmer, to be laid out in the improvement of his farm may, in the end, add to his Stock of real riches."

While it was not the same as money, by serving as a new power in the operations of industry, the funded public debt would end up creating the money of the community.

Hamilton understood that the real value which money has, is as the reflection of the physical wealth built, which actualizes what was an initial act on credit. It was just in this way that the public debt was a higher form of capital, with a value intrinsically linked to the power of the government, unlike mere gold. The bank notes that were circulating on the public debt represented the power and promise of the new federal government and Constitution.

Later, on January 21st 1795, as the system of public credit had been established, Hamilton underscored this point in his last report to the American people as Treasury Secretary.

"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'."

"This just and ingenious definition condenses to a point the principal arguments in favour of public credit, and displays its immense importance.

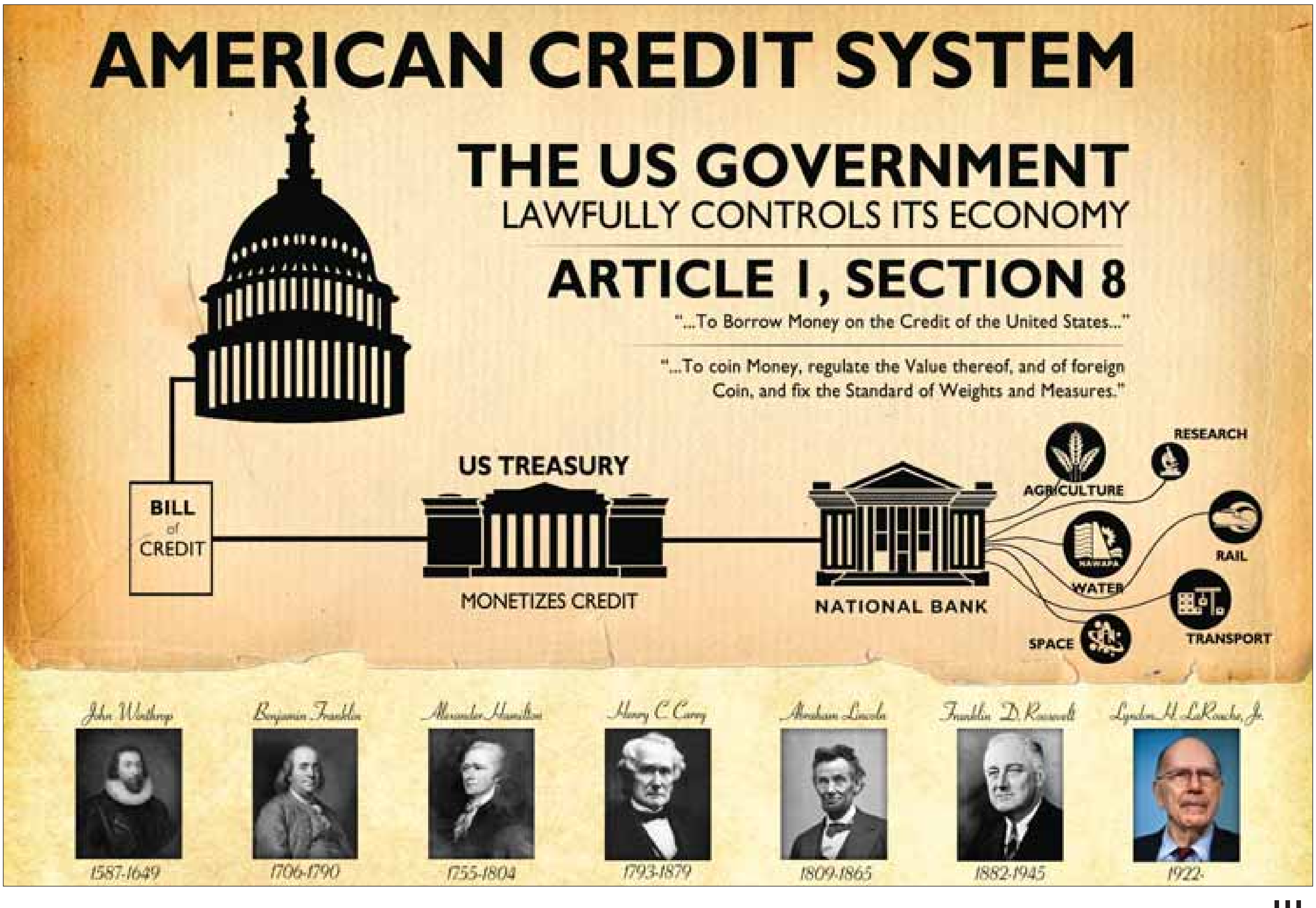
"...it is among the principal engines of useful enterprise and internal improvement. As a substitute for capital, it is little less useful than gold or silver, in agriculture, in commerce, in the manufacturing and mechanic arts.

"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."*

Conclusion

So that there can be no room for misinterpreting Hamilton's system according to today's erroneous assumptions of monetarism, I include in the conclusion of this section, a commentary on Hamilton's conception of a funded debt, seen clearly in his reports on public credit from 1790 through 1795.

"Persuaded as the Secretary is, that the proper funding of the present debt, will render it a national blessing: Yet he is so far from acceding to the position, in the latitude in which it is sometimes laid down, that "public debts are public benefits," a position inviting to prodigality, and liable to dangerous abuse,– that he ardently wishes to see it incorporated, as 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 extinguishment. This he regards as the true secret for rendering public credit immortal — and he presumes that it is difficult to conceive a situation in which there may not be an adherence to the maxim at least he feels an unfeigned solicitude, that this may be attempted by the United States, and that they may commence their measures for the establishment of credit, with the observance of it."—Hamilton, Public Credit Report 1791.



Article I, Section VIII of the U.S. Constitution.

"True patriotism and genuine policy cannot, it is respectfully observed, be better demonstrated by those of the United States at the present juncture, than by improving efficiently the very favourable situation in which they stand, for extinguishing, with reasonable celerity, the actual debt of the country, and for laying the foundations of a system which may shield posterity from the consequences of the usual improvidence and selfishness of its ancestors ; and which, if possible, may give immortality to public credit..." —Hamilton, Public Credit Report 1795.

Hamilton did not mean and did not say to extinguish the national debt it was necessary to make budget cuts, or simply increase taxes; *it was by guaranteeing that the economy was to grow through regulation and deliberate use of the National Bank*. This ensured the increases in productivity required to continually garner the surpluses needed to fund the debt.

Hamilton created a new debt, with the means to extinguish the debt organized into the creation of the debt itself, funded over a time period found beneficial toward the growth of the productive power of the nation. The means to extinguish debt are found in the powers of the country to regulate currency, regulate trade, invest and approve the loans of the Bank for industry, and to be the sole overseers of the value of the public debt. Without those powers, invested in Congress by Article I, Section VIII of the Constitution there is no possible way in which any large national debt could ever be honoured without giving up the sovereignty of the United States.

By establishing the public credit, and making good on the monetary debts which had been accrued, Hamilton was explicit in his intention; all the freed-up revenue flows from the resources of the nation,

after funding the debt, could be easily channelled to promote national productivity even further, with bounties, and other tax incentives of all kinds, for the promotion of manufacturing, inducements to invite skilled men in the mechanical arts from abroad, the establishment of societies for arts and sciences, and appropriations of money for roads, canals, and other infrastructure projects. All this was implied in the power of Congress to provide for the "common defence and general welfare", creating endless resources, to endlessly build the nation.

Footnotes:

To see the whole report you can go online www.larouchepub.com to see NAWAPA XXI LaRouche PAC Special Report, March 2012, Appendix 2, Detailed Proposal to Restoring the Public Credit Through NAWAPA XXI.

4. Charles Montagu, treasurer, key leader of the Venetian Junto in England, and part of the welcoming committee of the invading William of Orange, established the Bank of England in 1694 through an Act of Parliament. Montagu then organized large loans through the private Bank, controlled not by the King, but Parliament, creating a giant monetary debt out of thin air, a quantity for speculation and impoverishment of England, and then proceeded to push through dictatorial financial decisions for the economy, while never once issuing anything for development. By 1697, a deliberately forced depression and credit crunch left England weakened and subdued a situation in which the the Junto made the Bank a monopoly over all banking.

5. By contrast, any government which has a central bank, such as the Federal Reserve, which is permitted and committed to purchasing that government's debt, is in an inherently hyperinflationary situation. The government can incur unlimited amounts of debt which the central bank can simply buy by the printing of new money, irrespective of any connection of that new debt to development of the real economy or productivity.