Part 4: Roosevelt's Credit Funds

From *NAWAPA XXI LaRouche PAC Special Report, March 2012, Section III How NAWAPA XXI Will Restore the System of Public Credit*
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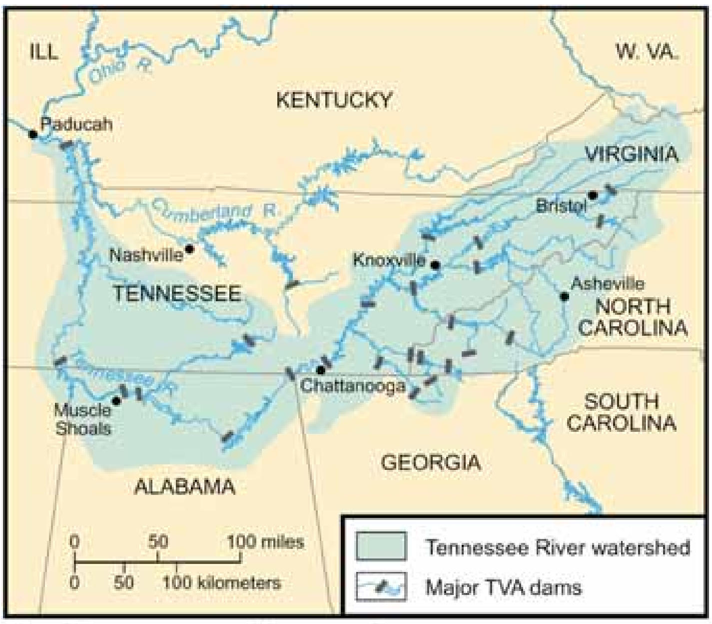
In the aftermath of the assassination of two nationalist presidents, James Garfield in 1881 and William McKinley in 1901, the Wall Street buyout of rail and steel by the turn of the century, and the establishment of the unconstitutional Federal Reserve under Wall Street tool President Woodrow Wilson, Franklin Roosevelt faced a daunting challenge. In the midst of the Great Depression, he had to approximate the intention of a full national banking system, as Lincoln had done with the greenbacks as an alternate mechanism of credit, this time using the Reconstruction Finance Corporation (RFC) and the Tennessee Valley Authority (TVA) for the task.

Franklin Delano Roosevelt, the 32nd U.S. president (1933-1945), led the nation through both the Great Depression and World War II.

The original RFC was formed by President Hoover as a corporation which was given a capital stock on which it had the authority to extend credit up to 3 times the capital stock. Under Hoover it merely doled out loans to banks and for rail bonds, which did nothing to solve the problem, since the banks could not rid themselves of their "toxic" assets whose interest payments were consuming all real assets. Roosevelt's RFC was entirely a different entity, and throughout the period FDR was president, it was used as a makeshift national bank.

Under Roosevelt, the RFC's ability to lend continued to increase, as the productivity it generated through its purchases and loans came back with interest, in all parts of the economy to which it loaned. The RFC issued bonds on its own behalf, marketed by the Treasury, with the Treasury also buying some of these bonds, and the faith and credit of the U.S. Government standing behind these bonds. Initially authorized to extend $2 billion between 1933-1945 the RFC eventually extended $33 billion ($1.2 trillion in 2006 dollars), much of which was raised by the Treasury through special RFC bonds.



THE TENNESSEE VALLEY AUTHORITY

Its major operations were in reversing the mortgage meltdown, helping 20% of mortgaged urban houses and refinancing 20% 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.

In the 1933 bank panic the RFC invested in sound banks reorganized through the "Bank Holiday", purchasing the capital stock of banks through a new amendment. In the fall of 1933, Congress gave the RFC a fund to buy up "market" gold, in order to devalue the dollar and break the British oligarchy's gold cartel's grip on U.S. banking.

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% of the 20-year loans which farmers

On May 18, 1933, President Franklin Delano Roosevelt signed the Tennessee Valley Authority Act.

"In the construction of any future dam, steam plant, or other facility, to be used in whole or in part for the generation or transmission of electric power the board is hereby authorized and empowered to issue on the credit of the United States and to sell serial bonds not exceeding $50,000,000 in amount, having a maturity not more than fifty years from the date of issue thereof, and bearing interest not exceeding 3-1/2 per centum per annum."

would take out from local REA districts at 3% interest. The REA received $40 million a year for ten years and increased electrification by 400% between 1935-1939, at least tripling the productivity of now 40% 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% of farms.

For the war, the RFC was be the source of funds, loaning to industries the needed money to defeat fascism. The RFC created two defence corporations investing over $10 billion dollars in the following: aviation and the auto industry which converted to aircraft production; aluminium and magnesium producers; 45 plants to build high-octane gasoline to fuel airplanes; 183 steel and iron plants; thousands of machine tool plants; new shipbuilding capacity and related infrastructure projects.[15]

As far as serving as the credit function for the government, the RFC worked similar to Hamilton's National Bank, as the funds on which it lent were all based on the creation of a debt to which the government was fully committed, based on the credit of the United States, in this case marketed by the Treasury. It, however, did not have the added element of being a government depository of revenues making up part of its loans, nor a place for all deposits resulting from the economic growth which it was stimulating, and was therefore more restricted in scope.

The Tennessee Valley Authority

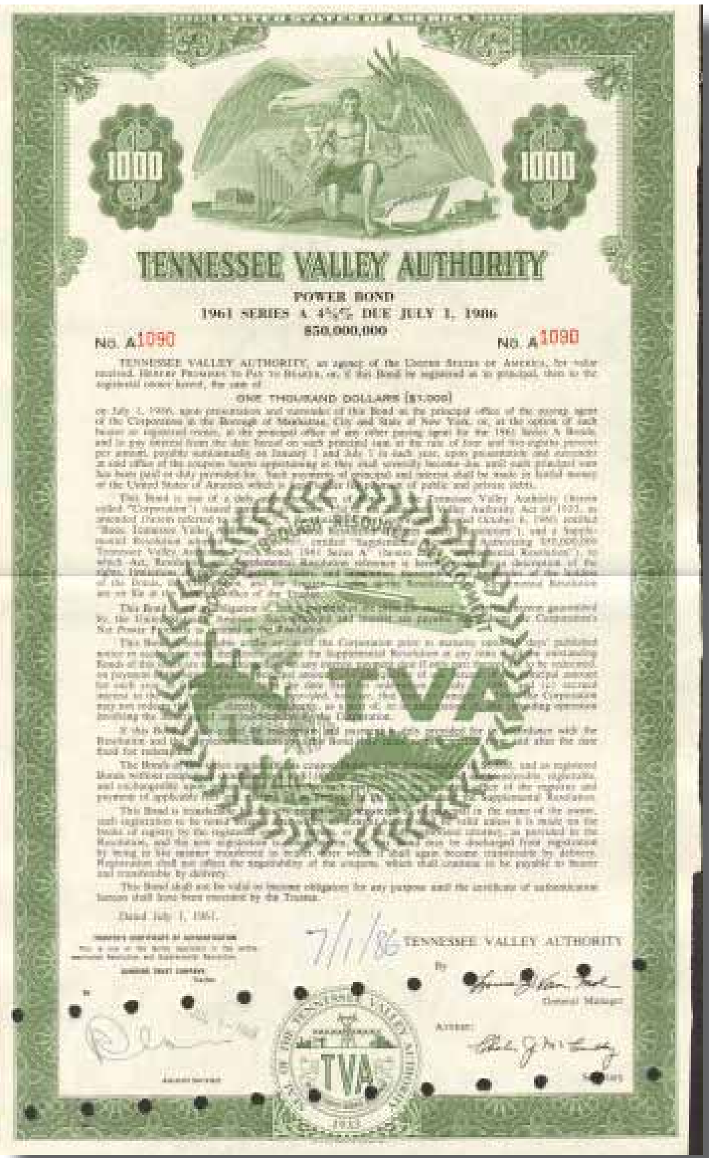
Less than a month after taking office, President Roosevelt sent a message to Congress asking for legislation to create the Tennessee Valley Authority. He requested that it be "a corporation clothed with the power of government but possessed of the flexibility and initiative of private enterprise." A month later, he signed the Act creating the TVA.

The Act authorized the TVA Board, with the approval of the Secretary of the Treasury, to issue $50 million in bonds to be sold by the TVA. In the case that the TVA ran into revenue problems, the bonds would be "fully and unconditionally guaranteed both as to interest and principal by the United States," making the bonds lawful investments for any funds. The Act authorized the Treasury to buy the bonds. The TVA was to pay the interest and principal on the bonds from its sale of electric power. Although thus backed financially by the government, the TVA had the flexibility to plan and carry out its projects, as long as it met the overall mandate of the law, to develop the Tennessee Valley. On the first day of the new fiscal year, Oct. 1, 1933, shovels were in the ground to start construction on the first TVA dam.

The Eisenhower Administration tried to dismantle the TVA, describing it as "creeping socialism." What the Congress did do was end all federal appropriations to the TVA, which had not in fact cost the federal government anything since the TVA was actually ahead of schedule in paying off the bonds. Also, a ceiling was put on how much debt the TVA could contract.

Since 1959, the TVA has been self-financed and its bonds are guaranteed by its power revenues, not the federal government, but the perception is that the government would back the bonds if need be, so the TVA has an AAA bond rating to this day.[16]

Tennessee Valley Authority, shows the water vapour from cooling tower of the single operating reactor at the Watts Bar Nuclear Plant in Spring City, Tennessee.



Tennessee Valley Authority TVA bond certificate stock. Political interference kept TVA from securing additional federal appropriations to build coal-fired plants, so it sought the authority to issue bonds. Congress passed legislation in 1959 to make the TVA power system self-financing, and from that point on it would pay its own way.

Conclusion

In all cases, the crucial principle of the System of Public Credit, implies a) a basis for lending, and b) the unification of resources of the nation channelled toward needed developments in manufactures and projects, making possible c) a system where circulating currency is defined by its future value.

In abandoning these Constitutional systems of financing, the piggy bank economy has only been able to be maintained for a certain period due to the former wealth that was created under direction of the credit system, which operates according to the future state which the present is striving to create.

The ignorance by the populace of the history and nature of the credit system of Franklin and Hamilton and the nature of its use by Lincoln and Roosevelt and Kennedy, combined with the backward education and propaganda campaigns funded by Wall Street, has always been the cause for these periods in which Wall-Street takes over the United States—periods which must be broken from with a rediscovery of the credit system and the investment in great projects, as in the cases of the Presidents mentioned.

The credit of a nation is based on whether the nation can organize itself to achieve the ends which it sets out to accomplish. This ability to perform is tied to its will to increase its productivity in science and technology. Today we lack credit because we lack the organization of our nation toward a future state of higher productivity. Without this direction, we have no credibility to build an economy on which anyone can depend. At the present time, anything short of high technological investments associated with NAWAPA XXI, and related projects, could not restore this credibility, either for our own sense of worth, or in the eyes of the world.

By constructing this project, a memorial will be built for those brothers who would have lived to build this country far beyond where we stand today—and the credit of the United States, shall be restored.

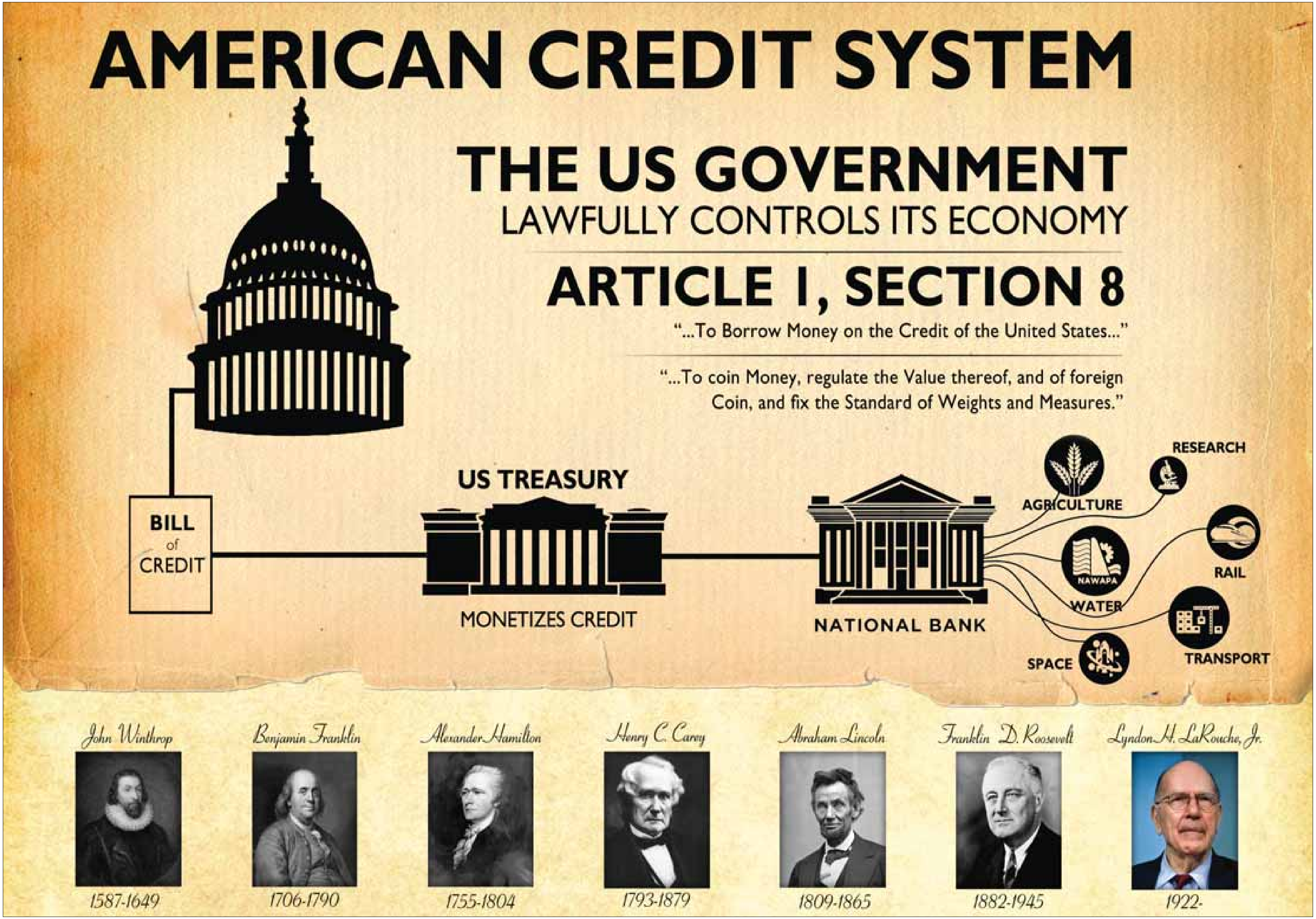
TVA Norris Dam and switching station, Tennessee.

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 or call CEC Melbourne Office on 1800 636 432 for a hard copy.

15. For more on the RFC see: "How Roosevelt's RFC Revived Economic Growth", EIR March 17, 2006.

16. The TVA has accumulated more then $25 billion in debt, mostly from loans that had been contracted in the 1970s to build nuclear power plants. These loans would have been retired by now, if the plants had not been canceled when nuclear power was under attack in the early 1980s. Congress has limited the TVA to a $30 billion debt ceiling. As it has approached that ceiling, the TVA has recently started to sell some of its power-generating assets to the private sector, and leased back the plants, so it still operates them and sells the power. That means the TVA has to pay a higher interest rate to the company that now owns the facility, than it would if it could just sell its own bonds to finance its construction projects. The rise, however, avoids the TVA bumping up against its debt ceiling.


AMERICAN CREDIT SYSTEM
THE US GOVERNMENT
LAWFULLY CONTROLS ITS ECONOMY
ARTICLE 1, SECTION 8
"...To Borrow Money on the Credit of the United States..."
"...To coin Money, regulate the Value thereof, and of foreign Coin, and fix the Standard of Weights and Measures."
BILL of CREDIT
US TREASURY
MONETIZES CREDIT
NATIONAL BANK
AGRICULTURE
RESEARCH
NAWAPA
WATER
RAIL
TRANSPORT
SPACE
John Winthrop
1587-1649
Benjamin Franklin
1706-1790
Alexander Hamilton
1755-1804
Henry C. Carey
1793-1879
Abraham Lincoln
1809-1865
Franklin D. Roosevelt
1882-1945
Lyndon H. LaRouche, Jr.
1922-