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Bill in Congress targets Fed, begs role of a national bank

On Jan. 5, Rep. Henry Gonzalez (D-Tex.) introduced into the U.S. House of Representatives a bill, entitled "The Federal Reserve Accountability Act of 1993," containing measures to reduce the autonomy and secrecy of the Fed. This marks the latest in a series of initiatives in several countries, calling into question the validity and function of a privately owned, so-called central bank. The Federal Reserve is billed as a public agency, but right from its inception in 1913, it has been the instrument of the private financial interests that created it.

During 1992, millions of voters in Denmark, France, and Ireland also voted against sweeping expansion of private central banking called for in the proposed Maastricht Treaty.

But what is the role of a sound national bank? This was summarized by economist Lyndon LaRouche in an interview with *EIR* on Dec. 28. He has commissioned draft legislation to nationalize the Federal Reserve and return to constitutional banking. LaRouche described the gigantic scam they are now perpetrating.

"The scandal is presently," LaRouche explained, that via the Fed, "the federal government is creating debt gratuitously, just to bail out private banks. The government does this by borrowing money—creating new national debt—*after* giving away all kinds of tax concessions which reduce government tax revenue. . . . The financial centers have been subsidized by a 5% spread margin, organized by the Federal Reserve System. . . .

"The Federal Reserve System issues money at less than 3% to New York bankers," LaRouche said, through the Fed discount window. "These banks in turn loan that money to the federal government—by buying federal debt, which pays 7.5%, or on long bonds as much as 8%. . . .

"The federal debt is being built up to bail out the private banks. And the federal government, in order to conduct its own operations, in order to pay the debt service that it already owes to the banks, borrows *more* money, federal debt, which it pays for by this means. Which is paid for by the taxpayer—all to no avail."

How a national bank should work

"Instead of creating our own money to get money for projects," LaRouche summed it up, "we're borrowing it at up to 8% from people who are getting it at 3% from our central banking system. Why can't *we* get it at 3% from our central banking system?"

Under LaRouche's bill to *nationalize* the Fed, the "Federal Reserve Nationalization Act of 1993," Congress would create a National Bank to do this.

"According to our federal Constitution, the creation of money and the circulation and regulation thereof, is a monopolistic responsibility of the federal government," he explained. "The way we're supposed to get money, is that the President goes to the Congress and asks for a bill which authorizes the Executive branch to print and circulate money—to create specie. Acting upon that bill, the President instructs the secretary of the treasury.

"And the proper procedure is that the secretary of the treasury *issues the money*. This money is then properly placed in a National Bank. It's not spent usually for government expenditures directly. It's not paid out by the government. But it's put in the bank.

"When it gets to the bank, it is loaned. The federal government loans money, that is, its own created money which it must not spend directly, generally, except in times of emergency. The federal government is loaning out of its operating revenues.

"Part of the money is used to be loaned, mixed with private savings and loans, to private companies for worth-

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while kinds of private investments, categories of private investments, to build up the economy."

Loans for productive purposes

As detailed in the "Federal Reserve Nationalization Act" (see *EIR*, March 6, 1992), private banks would be able to get cash directly from the new National Bank only by bringing in a loan contract from a prospective borrower for a productive economic purpose, such as construction of a steel plant. The National Bank would provide up to 50% of the loan to the bank, charging the bank 2-4% interest. The bank would have to provide the rest from its deposits, and loan the total to the steel company at a regulated, low interest rate in the 4-6% range.

Perhaps 60% or more of this government money, however, "is loaned at low interest rates to government agencies such as state governments, state projects, or federal corporations, corporations authorized by the federal government, water project companies, or the Tennessee Valley Authority, for example," he said.

"These government companies use that money to create wealth in the form of infrastructure," LaRouche said. The federal and state agencies which receive these loans "are like master contractors, which now borrow money from the National Bank at a 2%, 10-20 year term."

This procedure has nothing to do with current inflationary government spending, and would not be inflationary, because it is totally different from the present run up of the federal debt, LaRouche emphasized. "We're *not monetizing the debt,*" as the Fed does today, he noted. The purpose of the National Bank's charging the public sector "master contractor" operating agencies 2% is that "we're creating a debt which is not a federal government debt, but rather an agency debt. The government may put full faith and credit behind the debt of an agency, but it is not federal government debt."

The reason is that the new public borrowing agency will become an agent of *real production* in the physical economy, a major distinction from federal government borrowing today. "Because the agency debt corresponds to some physical operating asset which is created as a result of this borrowing," LaRouche explained, "this asset will be worth more than the net debt."

The new infrastructure projects built by these agencies will create so much new wealth, including new tax revenues, that it is reasonable that "the federal government may pay tax money to support the operating budget of the facility so created, in which the facility will be paying back to the federal government this interest or whatever it is on the money it borrowed." Inflation, LaRouche said, will be "no problem whatsoever.

"The agency which borrows, such as a construction agency, for example, an agency building water projects, power projects, transportation projects, and so on, generally will be public utilities in form, a federal or state public utility usually. Or it may be local, but these are generally state-chartered."

On the basis of the initial federal loan from the National Bank, these agencies will then be able to borrow further credit from private lenders, he noted. "These public agencies will create a bond issue. The bond issue will be the capitalization of the debt accumulated from the construction loans, in effect."

Through this process, the federal government can be repaid its investment by sale of most of the bonds of the new public ageny to the private sector. "This can then be privatized in part, in the way a regular public utility is privatized—by sale of its utility bond. For example, you create a railroad project. The federal government creates it. It loans the money for the construction phase. When the railroad is created, a bonded indebtedness is created against the agency which functions now as a public utility with its bonded debt. The federal government may hold the treasury portion of the bond issue until the issue is sold, piece by piece. The federal government is actually shedding—being paid initially in a bond—those bonds into the public market, gradually.

"This public agency debt will be paid by two types of revenue. There will be debt, the payment of which comes out of tax payments—federal, state, local, or a combination—to a facility which then pays its debt out of the total revenue. We will also create a second type of facility which, in whole or part, has its own revenue income. For example, a railroad has a revenue. A utility company has a revenue. A water project may have some revenue, or it may not; we may supply the water free. Or we may sell it, one of the two, it depends on the project.

"But we'll have, in all these cases, an assortment of operating revenue mixed with government subsidies, so to speak. And out of the total revenue, which is paid to the facility for that utility or quasi-utility entity, that part of it will be used to pay the interest on the 2% loans from the National Bank.

Operating revenue untouched by debt

"Thus, instead of creating a federal debt against the operating revenue of government, instead of taxing the operating revenue of government, as in the current central banking mode, we're creating a debt in a productive economic facility, a public utility or a state government or a local government.

"There are two restrictions on this. First, you must have a regulated economy. You must have monetary, financial, and banking regulation. You must have tariff regulation. You must have interstate commerce regulation. You must have restrictions on to whom you loan, at what price. You must have a dirigist economy.

"If it's investing in technological progress, capital-intensive, energy-intensive technological progress, such investment of federally created money will cause full employment, relative prosperity, and continued economic growth. And it will not cause any federal debt, except the imputed debt of balance sheet liability of the federal government to back up its own currency. And if the currency is properly invested, there won't be any problem on that account."