What Planet Are You On?

The absurdity of the CRS's denial of the ongoing bankruptcy-collapse is matched by the analyst's attempt to shoot down LaRouche's proposals with an historical review of the way the financial system has functioned since the Bretton Woods system was established in 1944. He's lying, or, is he living on another planet?

Two examples suffice to make the point: his treatment of the Federal Reserve and its role in the banking system, and his discussion of the functioning of the Bretton Woods system.

1. What a banking system is about

Crucial to the analyst's argument, is his commitment to the independence of the Federal Reserve. "Although critics of the Fed may want the central bank to be more responsive to real suffering, there is little evidence that a less independent central bank would improve economic performance," he writes. That whopper is followed by an assertion that LaRouche's plan to protect the chartered banks with a new Federal agency "may be redundant because many banking activities are already under the protection of federal banking regulators."

Congressional Research Service on the HBPA

Here is the conclusion of the CRS memo of Feb. 1, 2008, "Subject: Lyndon LaRouche's Home Owners and Bank Protection Proposal."

A mortgage freeze and reorganization of the banking system could provide some relief to currently troubled borrowers and make the central bank more responsive to the electorate. These potential advantages are accompanied by potential unintended consequences. A less independent central bank could result in higher long-term inflation rates without improving other real economic variables. Moral hazard could cause some borrowers to default on loans that they could otherwise make payments on. State governors would have an incentive to free-ride on the federal banking protection and set home rental payments too low and undercapitalize the banks. Freezing the housing market could prolong the glut of unsold homes and delay recovery. The new Bretton Woods system could result in destabilizing capital flows, especially because the new central bank would be even less insulated from domestic politics than the Federal Reserve.

The most fundamental problem here is that this analyst, schooled in British monetarist economics, has no clue as to what improved economic performance actually is. His reference to the objectives of price stability and maximum employment provides no scientific measure, which measure requires defining economic and scientific progress in relation to the productivity of labor, living standards, and technological development. Under his standard, periods such as the 1990s, which saw rapid expansion of the money and service economy, but a collapse in overall living standards and vital infrastructure, would be considered prosperous—as they were not. "Improved economic performance" to him clearly means the *money* economy—not the physical economy.

And as for "independence," that is a misnomer as well. The Fed has been, for most periods of its history, a fully controlled tool of the money-center banks, if not of the City of London itself. What it is independent of, are the commitments of the Constitution's Preamble—most specifically, providing for the general welfare.

But, going back to the CRS assertions, we find that they fly directly in the face of recent history.

The one period during which the Fed was less independent, came under President Franklin Roosevelt, who used his Fed chairman, Marriner Eccles, to steer monetary policy in sync with his programs for massive infrastructure investment, and raising living standards for the poorest of the poor. FDR, unlike the proponents of the British school of economics, did not adhere to the view that the Fed was tasked with servicing the financial markets: He came into office explicitly committed to driving the money-changers out of the Temple, and freeing the American people from the predators of Wall Street. It's fashionable on Wall Street these days, to claim that FDR's economic program was a failure—but if you ask the surviving citizens of those years who were saved from starvation, protected from homelessness, and trained for productive work, you will get the true story. The CRS author lies again.

From the moment of his bank reorganization, FDR understood the Federal Reserve and the chartered banking system to be tools for advancing the general welfare, and he wielded his political power against the financial interests, led by the British, who opposed him. It was for that reason that he introduced a series of regulations over the banking system, both to prevent abuses, and to ensure sufficient, low-interest credit for the projects that were vital to rebuilding the economy. The Federal Deposit Insurance Corporation and the Securities and Exchange Commission were created by FDR, along with many regulations, such as the Glass-Steagall Act, to discipline the banking system, to act for the general welfare.

In his Memorandum, the CRS analyst asserts that Federal banking regulators are already on the job protecting depositors, insinuating that LaRouche's proposals for protection are unnecessary. But, there is not a word about the fact that FDR's systems of regulation have been systematically dismantled over the last 35 years—to the point where any honest banker,