ROOSEVELT'S RESPONSE TO THE 'BANKING CRISIS'

How FDR Asserted the Power of Government Over Wall Street

by L. Wolfe

When, in 1933, Franklin D. Roosevelt was confronted with the then-worst financial and banking crisis in the history of the United States, he chose to ignore the advice of Wall Street bankers, the press that they controlled, and various "free market economists."

Instead of bowing to pressure for a bailout of financial paper or "injections of liquidity" into a frozen banking system, he chose instead to go right at the power of the financier oligarchy whose past domination of economic policy and orgies of financial speculation had brought on the crisis. To accomplish this, FDR asserted the power of the Constitution over banking and finance, while taking steps to recreate a locally based system for the distribution of government-issued credit to get the economy moving again.

To gain the support of the American people, Roosevelt had to go against popular opinion, manipulated by Wall Street, that had cast the corrupt financial oligarchs as admired plutocrats, whose alleged mastery of the "laws of finance" had garnered for them lots of money. As the "clever" financial speculations of these oligarchs were exposed, Roosevelt reminded Americans that their own worship of the power of money had set them up to be preyed upon.

In doing all these things, FDR restored the trust between the people and their government; this accomplishment was the single most important success of his "New Deal."

In this report, we discuss how FDR waged this battle to restore sanity to banking practice and to shackle the power of Wall Street's "economic royalists." While, the crisis we face today is even greater than that which FDR faced, his method, as the economist and Democrat Lyndon LaRouche has repeatedly explained, provides us with lessons in how we must approach the tasks ahead of us.

The Dead Banking System

As President-elect Franklin Roosevelt prepared to assume office in late 1932 and early 1933, the banking system of the nation was totally dysfunctional. The flow of credit to small and large business concerns and to the average American had virtually stopped; meanwhile, the "guts" of the American system of national banking, the local banks on "Main Street, " were closing their doors.

Meanwhile, the New York and other money-center commercial banks, and the Wall Street merchant banks which effectively controlled them, were loaded with cash which they refused to lend, except where enormous profits and fees were assured, or to financial predators ready to loot what remained of our economy. As the Senate Banking Committee hearings, steered by chief counsel Ferdinand Pecora, would later show, the money-center banks were colluding to make themselves and their directors great profits, at the cost of the suffering of the majority of the American people.[1]

The Wall Street bankers and their stooges in the

1. The Senate Banking Committee hearings on the causes of the 1929 Crash and the onset of the Depression received their mandate in March 1932, but took on a new character with the appointment of Pecora as chief counsel in 1932. See L. Wolfe, "The Morgan Fascist Coup Plot and How FDR Defeated It," *EIR*, Aug. 11, 2006. More recently, see "It's Time for New Pecora Hearings, *EIR*, Oct. 10, 2008.

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President Franklin Roosevelt rejected any "bailout" of Wall Street, and instead, went after the power of the financier oligarchy whose speculative orgies had brought on the crisis. Shown: FDR signs the Banking Act of 1933; at his right, Sen. Carter Glass (D-Va.); at his left, Rep. Henry Steagall (D-Ala.).

Hoover Treasury Department and the Federal Reserve forced the "Main Street" bankers to write off otherwise viable assets whose values had been deflated; this cut off credit to homeowners and local businesses at the very moment when such credits, on liberal terms, were needed the most. The credit shutoffs accelerated the collapse of bank assets, as more homeowners and businesses slipped into default. By early 1933, more than half of all domestic residential mortgages were in some stage of foreclosure, while half of all outstanding consumer and small business loans were in default.

As economic activity slowed, as small shops and large factories alike released their workers and closed, people desperate for cash withdrew funds from their local banks. Soon, panicky depositors worried that if they waited, their banks would run out of cash, and so were withdrawing all their funds and closing accounts. Word would spread in a matter of hours about "trouble" in a bank branch in a nearby town, to the depositors at the local bank branch, causing a run that would close the bank.

At first, regional Fed banks tried to rush cash to the beleaguered banks; but, as the crisis grew, the Fed's actions became more erratic and were totally insufficient to stem the chaos. Finally, they appeared to just give up.[2]

FDR Formulates a Plan of Action

In meetings starting in late December and proceeding, with some breaks, right up to the March 3 inauguration, FDR and his advisors hammered out a response to the crisis. As reports from within the so-called "Brain Trust" of advisors he had assembled make clear, it was FDR who functioned as the "commander in chief" of what he recognized as a political war to wrest control of the banking system from the cabal of private bankers centered on Wall Street, who had hijacked the nation's finances and banking system for their own ends. Roosevelt generally did not proffer specific policies, but instead established "guiding principles" for those policies.

In addition, FDR provided political guidance for advisors whose academic credentials generally left them politically "tone deaf." For example, he pointed out that none of the proposed regulations or reforms would have any real effect without restoring the trust of the American people in their government. As Rex Tugwell, one of the Brain Trusters involved in the discussions, reports,[3] FDR had to repeatedly rein in advisors who would propose to go further than he believed the American people were willing to accept, or to attempt to do something that would defeat the larger purpose of keeping a recovery on track.[4]

During this same period, FDR also rejected the urgings of the Hoover White House and some among his own advisors that he join with Hoover in supporting an

2. Rexford Tugwell, *The Roosevelt Revolution* (New York: MacMillan, 1977). FDR's allies believed that the money-center banks wanted to jump state lines and form huge banking syndicates to replace locally-owned branch banking, much as has taken place in recent years under deregulation.

3. Ibid.

4. Ibid. Tugwell says that FDR specifically rejected proposals supported by himself for the nationalization of the Federal Reserve, saying that such an action would have provoked a legal firestorm that could have jeopardized early New Deal policy.

intervention to help troubled banks and to provide aid to the unemployed. Roosevelt believed the proposal to be a half measure that would accomplish little in reality, except to link him to the banker-controlled and thoroughly discredited outgoing Administration.[5]

What emerged instead was a plan of action that focussed on the following actions and principles:

1. Restore confidence in our banking system and stop the runs on banks by placing them under Federal protection while their finances were reorganized;

2. Assert the Federal government's Constitutional authority over, and responsibility for, the banking system while allowing for its continued ownership by the private sector;

3. Reduce and limit the power of the cabal of Wall Street private bankers;

4. Strengthen local and regional banking, protecting its operations as the cornerstone of our credit distribution system.

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Even before FDR took office, he laid out a plan of action to reverse the Depression, including placing the banking system under Federal protection; here, a run on the American Union Bank in New York City in the midst of the bank panic.

3. Restoring Confidence and Asserting Power

The draft of the order for a national economic emergency and the "Bank Holiday" was ready by early February. The legislation that FDR would submit to Congress was finished shortly thereafter. Both were kept under wraps for nearly a month, as the situation on the ground grew worse, and FDR continued to politely rebuff calls from the Hoover White House for joint action.[6]

The plan was simple and direct: the Federally-chartered and state-chartered banking system would be placed into an effective Federal receivership, similar to what takes place in a bankruptcy procedure. All the banks would be shut down and would not be allowed to reopen until they had received a Federal "seal of approval." While they were shut, Federal examiners would move in to look at their books. Where necessary, the banks' bad debts would be reorganized, written down, or even written off; Federal funds, distributed through the Treasury and the Fed, were to be made available to cover reserve requirements, with additional funds available to cover potential deposit withdrawals. When they reopened, people would be reassured both that their bank was sound, and that the government would stand behind that assurance.

As FDR understood, most banks were, in fact, sound; they would need minor reorganization, and could be quickly reopened. Others would take longer. The examiners were tasked with operating with dispatch in their work, but not with undue haste.[7]

Roosevelt used his March 4 inaugural address to rally support for what was about to happen. Targetting the financial oligarchy as responsible for the nation's

5. Ernest K. Lindley, *The Roosevelt Revolution* (New York: Viking Press, 1933). The Hoover bailout plan, authored by Wall Street, included government purchases of bad bank debt, and investment by the government in bank equity, as well as making government backing available for corporate debts. It specifically did not include any help for homeowners threatened with foreclosure.

6. Wolfe, "Morgan Coup Plot," op. cit. Shortly after FDR rejected the White House overtures, and as his staff was drafting his own plan of action, Roosevelt was the target of an assassin in Miami on Feb. 15, 1933, when returning from a brief vacation. The assassin's arm was diverted at the last minute by the action of a woman in the crowd, or the history of the last 75 years could have been dramatically different.

7. Linley, op. cit. FDR insisted on closing all Federal Reserve banks, over the objections of some of his advisors who argued that they were "sound," and that their closing might reduce confidence in the Fed. On the contrary, said FDR, their closing was essential to the success of the entire program, showing that even the Fed required a "government seal of approval" to pronounce them sound.

dire plight and the collapse of their own system, he proclaimed: "[T]he rulers of of the exchange of mankind's goods have failed, through their own stubbornness and incompetence, have admitted their failure and abdicated. . . .

"They know only the rules of a generation of self seekers. They have no vision, and when there is no vision the people perish.

"The money changers have fled from their high seats in the temple of our civilization. We may now restore that temple to the ancient truths. The measure of the restoration lies in the extent to which we apply social values more noble than mere monetary profit. . . ."[8]

A day later, FDR called Congress back into emergency session to endorse his order to shut the banking system for a four-day "Bank Holiday." Congress, recognizing the public support behind the President, quickly passed the measure. By the next morning, Federal examiners were in banks throughout the country.

There were tense moments during that previous night, as the Wall Street cabal, in the form of the board of the New York Reserve Bank, huddled to decide whether they would abide by Roosevelt's order. Messages were sent back and forth between New York and the White House, with FDR's answer, through aides, always the same: You must close. Finally, the New York Fed relented and ordered its member banks to shut, as did the other Reserve banks. If they did not back down, FDR was prepared to order Federal troops to shut their doors.[9]

With his emergency order approved, FDR next submitted the prepared legislation to extend the Bank Holiday to give the Federal government the time and power to reorganize troubled banks, closing ones that were hopelessly insolvent, and merging their operations with stronger banks, while writing down or eliminating bad debts. The Emergency Banking Relief Act, as the measure was called, also ordered Treasury to make available funds to meet the reserve requirements and provide additional liquidity to cover any deposit withdrawals.

While most banks reopened the following week, more than 4,000 were eventually reorganized and/or merged, or closed. Over time, depositors, even in the closed banks, were able to reclaim most of their assets. Hundreds of millions of dollars of worthless financial paper and debts were written off.

On March 12, FDR addressed the largest national audience ever spoken to by a U.S. President in his initial "Fireside Chat," explaining the banking crisis and what his Administration had done in response. As the letters to the President following that address made clear, FDR had achieved what he wanted: stemming the panic, and making Americans see their government as taking control of the crisis.[10] More than $1.2 billion in deposits was restored by the end of March. To provide further assurance to depositors that their money was safe, the Glass-Steagall Act of June 1933 provided insurance for all deposits of up to $2,500,[11] and created the Federal Deposit Insurance Corporation (FDIC) to administer the program.

Reducing Wall Street's Power

By establishing the primacy of the Federal government over financial and banking practices in the very first days of his Administration, FDR was now ready to begin moves to bust up the concentration of power of the Wall Street cabal.

To soften them up, Roosevelt employed some of his famous "pitiless publicity" in the form of then ongoing Pecora hearings. We have reported on the content of these hearings elsewhere.[12] For our purposes here, it is sufficient to point out that, more than anything else, chief counsel Pecora presented such a compelling case of the venal corruption at the highest levels of Wall Street's staid banking establishment, that even Wall Street's own media, such as the *New York Times,* were forced to cover the "big show."

Up until that time, and like today, many Americans regarded these crooks as royalty, following their extravagances as they would Hollywood movie stars; even during the middle of the Depression in 1931,

8. *The Essential Franklin D. Roosevelt*; John H. Hunt, ed. (New York: Gramercy, 1995).

9. Recounted in James McGreggor Burns, *The Lion and the Fox* (New York: Harcourt, Brace & World, 1956).

10. FDR received hundreds of thousands of letter supporting what he had done and praising his speech. Typical was one from a New York State Supreme Court Justice who said, "When your radio talk began, everyone seemed hypnotized because there wasn't a word spoken until you had finished, and then, as if one voice were speaking, all spoke in unison, 'We are saved!' The same individuals who, a few moments before (who were pulling money from banks) declared that they would leave their money in their banks and that they were not afraid of the future. . . ." From Lawrence W. Levine and Cornelia R. Levine, *The People and Their President—America's Conversation with FDR* (Boston: Beacon Press, 2002).

11. FDIC coverage was expanded to include amounts up to $5,000 by the Bank Act of 1935.

12. Wolfe, op. cit.

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One of FDR's most powerful weapons against the "economic royalists" was Ferdinand Pecora, the chief counsel to the Senate Banking and Currency Committee, whose hearings exposed the venal corruption of the banking cabal. Shown: At the hearings, Jan. 11, 1934 (left to right): Sen. James Couzens (R-Mich.); Sen. Duncan Fletcher (D-Fla.); Pecora.

people like J.P. Morgan, Otto Kahn, and the other "big names" of the financial crowd routinely found themselves on lists of the "most admired Americans." Under the relentless questioning of Pecora, however, these same names were exposed as nothing but haughty criminals—a high-finance version of the Capone mob.

This tarnished image made possible the passage of regulatory legislation which had been opposed by the "royalists," and which would otherwise have been blocked by Wall Street's lackeys in the Congress. Now, the Congress had to fear the rage of a public, shocked and angered by the Pecora revelations, a public solidly behind their President,

Roosevelt, whose ancestor Isaac Roosevelt[13] had been an ally of the founder of the American System of national banking and economics, the first Treasury Secretary Alexander Hamilton, was, like Hamilton, a strong believer in privately owned and operated banks. However, also, like Hamilton, he believed that government had both a right and obligation to direct credit within this privately owned system, to steer it away from speculative practice, and towards the national interest. Regulatory authority was the key to reversing the destructive lending practices of Wall Street, whose corruption and pursuit of huge monetary gain, had seeped down to "Main Street."

To put it simply, Wall Street, and the "economic royalists" who controlled it, had too much power. It was bad enough that they totally controlled the New York Fed, and with it the policy of the Federal Reserve System, through their interlocking directorates, but, as Pecora had shown, they also controlled the commercial banking sector. While it could be argued that merchant banks, the center of oligarchical power, were parasites, performing no useful function to the economy while doing great harm through their speculations, commercial banks performed useful and necessary functions in the conduct of trade and commerce. The only way to protect the viable functions of the banking system, was to bust up this concentration of power.

FDR and his advisors chose the simplest and most direct route: to totally separate commercial banks from merchant banks and all securities operations, and then regulate the hell out of the former, to try to get them to carry out useful lending and credit distribution.

FDR took personal charge of getting this proposed reform through a Congress loaded with "free market" lunatics and kept lackeys of Wall Street. He asked his ally and head of the House Banking Committee Rep. Henry Steagall (D-Ala.) to attach the key provisions FDR desired to modest bank reform legislation sponsored by Wall Street's favorite Senator, Carter Glass (D-Va.), the man who had pushed the Federal Reserve Act through Congress in 1913. To make the measure "bulletproof," the Congressionally popular program for deposit insurance was tacked on.

With Glass leading the charge in the Senate, the bill sailed through Congress. When the dust settled, the functions of commercial banking and so-called investment banking had been separated. In addition, the legislation provided for the first-ever Federal oversight of commercial banking, and incorporated a measure aimed at stopping the incursion of money-center banks into the local depository domains of the savings and loans—

13. Roosevelt's great-grandfather Isaac had been involved with the Bank of New York and was an ally of Hamilton.

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The Pecora hearings showed that Wall Street's "big names," like J.P. Morgan (left) and Otto Kahn, were nothing but a high-finance version of the Capone mob.

the famous Regulation Q, which barred banks from paying interest on checking accounts. Glass-Steagall, as the measure became known, also gave the newly created FDIC regulatory and supervisory power over all banks that sought coverage with deposit insurance, including formerly non-Federally regulated state banks. With the passage two years later of the Securities and Exchange Act, which regulated all securities transactions and brokerages, a diverse Federal regulatory authority blanketed the banking system.

The Morgans, in particular, along with the rest of the merchant banker cabal, never forgave FDR for Glass-Steagall.[14]

Taking Over the Fed

As long as the "royalists" controlled the Fed, they could effectively sabotage and control the nation's finances. That control had been put in place by the Federal Reserve Act of 1913, which gave the Fed the exclusive power to control the sale of all government securities and debt. In a direct perversion of Hamilton's intent and method of using debt as directed credit placed into a national banking system, the Fed, in its "open market" operations, handed the marketing of the debt over to merchant bankers, who sold it, and then "monetized it" through their own purchases of unsold securities, placing these proceeds on deposit with the New York Fed and member banks; the banks, without any Congressional authorization, then created reserves out of thin air from these deposits, which funds they used for whatever speculations they deemed fit. Meanwhile, the banks were paid hefty fees for their services, as well as "market" interest rates on the debt instruments.

Implicit in this arrangement is that the merchant bankers could refuse to market or charge usurious rates for U.S. government debt ("bust the market") to discipline any government that refused to toe their line. This threat became explicit in early 1934, when the newly appointed Secretary of the Treasury, FDR's personal friend Henry Morgenthau, was summoned to New York City for what was called an "urgent" meeting with the powerful heads of the New York Federal Reserve bank. Morgenthau was ordered to sit in a chair and then was given a finger-pointing lecture. As he recounted the story, he was told: "You are going to do what we say, when we order it, or, we are going to bust the Treasury market and shut off credit to the government."[15]

FDR now had to move to assert control over the Fed, before it acted against him and the New Deal. He believed that even the Fed could be forced to bend to the will of the Presidency, and made to perform, along with Treasury, as "the lender of last resort," distributing Federally issued, Congressionally authorized credit through a revived system. The key to this plan was to

14. Wolfe, op. cit. The House of Morgan was forced to divest itself of its commercial bank, which has since morphed into J.P Morgan-Chase. But it was the fact that FDR had used Presidential power against the bankers that caused the British-controlled Morgan interests to initiate a Mussolini-style fascist coup plot against FDR, the which was exposed and defeated by Roosevelt with the help of the patriot Maj. Gen. Smedley Darlington Butler (ret.).

15. Marriner Eccles, *Beckoning Frontiers* (New York: Alfred A. Knopf, 1951). This story was recounted to Fed chairman Marriner Eccles by Morgenthau.

find a new Fed chairman (the chairman of the Board of Governors is a Presidential appointee, approved by the Congress) who could work with him and would stand up to the "royalists" and their New York Fed.[16]

In Marriner Eccles, a regional banker and industrialist from Utah, Roosevelt found just the person that he and the nation needed. Eccles, a lifelong Republican, was not like any Fed chairman before, and none since.

Eccles once said that he had no economic philosophy, and that he had never studied what was taught in universities as economics.[17] His economic ideas were based on what he had learned throughout his life, and in his work, about economic development, the improvement of the human condition, and the role that banking must play. His family had been involved in resource development and had set up various construction and other industries, and Eccles became involved in banking out of need to organize credit for these companies. For him, lending wasn't about making paper profit, but about realizing something in physical economy.

FDR Library

Roosevelt's personal friend, and Treasury Secretary, Henry Morgenthau, was "summoned" to New York, and threatened by the powerful heads of the New York Fed. He shown here with the President in 1934.

For Eccles, the breaking point came in a series of crises in 1931-32, that threatened to shut down all the banks of the Mountain region, including his own. As the panic among depositors grew worse, the Fed did little, and only then, after great pleading. While he was able to save his local banking syndicate, Eccles realized that the nation could not survive the continued indifference and even sabotage from Washington; he began to speak out on these matters, first regionally, then before Congress.

Eccles criticized the views expressed by the so-called "wise men of finance" that the Depression was a result of some "God-given laws" of the business cycle, and that no mortal man should try to interfere. To counter this, he offered a Hamiltonian definition of economics, demonstrating the errors in thinking of the "wise men": "Economics is merely the production and distribution of wealth brought about by the application of labor to raw materials. It is all man-made and has developed by the application of the human intellect to problems that presented themselves from the days of the cavemen to our own. . . .

"What passed for the 'God-given' aspect of operation of economics was nothing more than the determination of this or that special interest, especially favored by the status-quo, to resist any new rules that might be to their disadvantage. It became apparent to me, as a capitalist, that if I lent myself to this sort of action and resisted change designed to benefit all the people, I could be consumed by the poisons I had helped create. I saw at this time, moreover, that men with great economic power had undue influence in making the rules of the economic game, in shaping the actions of the government that enforced those rules, and in conditioning the attitude taken by people as a whole toward those rules. After I had lost all faith in my business heroes, I concluded that I and everyone else had an equal right to share in the process by which economic rules are made and changed. . . ."

The key to ending the Depression—which he was to

16. The Fed's Board of Governors is also appointed by the President, and approved by Congress. In general, such approval, as well as Congressional oversight, have been perfunctory.

17. Eccles, op. cit. Eccles repeatedly rebuked those who claimed that he was a "Keynesian monetarist," saying that he had never read Keynes and never would, since all he talks about is "money."

advocate even before FDR aggressively did so—was to deploy *public capital and credit* to place people in gainful employment, by investing in needed public infrastructure. Only the Federal government could initiate and undertake such an effort, since it had the power to change, where necessary, "the rules of the economic game."[18]

His remarks did not go unnoticed by FDR, who had Eccles invited to Washington first to serve in Treasury, and then, in 1934, as chairman of the Fed's Board of Governors.

It was widely known at the time, but now conveniently forgotten in most histories of the period, that Eccles and FDR were an economic team. They argued and discussed all manner of policy; the plainspoken Eccles was never afraid to tell FDR when he thought a policy was half-cocked or wrong. Both shared the view that the deployment of Federal government credit should be the main mechanism of recovery.

The problem, as Eccles saw it, was that the Federal Reserve Act had restricted the discounting of the long-term credit required for sensible public works and other capital projects. As long as the Reserve Banks could reject long-term financial paper offered for discount, no such loans would be made by the private sector, severely restricting the effects of any Federal efforts to distribute credit for those directed purposes. Prior to the point at which Eccles restored sanity to the process, there was less than $2 billion in loans eligible under Fed restrictions for rediscounting, and these amounts shrunk further under so-called eligibility provisos.

According to Eccles, this was not merely a technical problem, but reflected a subjective change in the purpose of banking and in the bankers' sense of their role in the economy. The latter, he indicated, had shrunk down to the most narrow sense of making monetary profit for their shareholders. As long as short-term monetary profit was the sole basis for bank lending decisions, then both the banking system and the economy were doomed.[19]

Eccles acted to move the banking system out of its money-based doldrums and wrong-headed thinking "by shifting attention from the word 'liquidity' and centering on the words 'sound assets.'" This was done by making all such sound assets *liquid*, making them eligible for rediscounting by the Reserve Banks. This shift, Eccles said, made the bankers focus on the physical assets and their relationship to their communities and economy; that is the only way to consider whether an asset is "sound."

Prior to his appointment as Fed chairman, Eccles presented his plans for Fed reform to a bemused FDR, asking also that the control of open market operations be taken away from the local Reserve Banks (and especially the New York Fed) and be centered in the Board of Governors; he also moved to eliminate all the characteristics that made the local Reserve Banks little fiefdoms unto themselves, including eliminating the position of chairman of the local Fed bank; and finally, the Fed would establish paper as eligible for rediscounting, as determined by the "soundness of the assets," which the Fed would offer guidelines in defining from time to time.

Most of the changes that Eccles proposed were incorporated in the Banking Act of 1935.

Support for Local Banking

When FDR took office, the vast majority of branch banks were locally owned or part of regional syndicates, with local people in charge of the branches. This was where most Americans and their businesses did their banking, and where they received credit. This type of banking was based on deposits—i.e., people kept their money in the banks, and these funds provided the capital for lending, based on banking decisions about the borrower, while keeping adequate reserves. These lending decisions were usually made on a person-to-person basis, with the banker knowing or getting to know his customers, and knowing, as well, what the loans were for. More often than not, decisions were made according to criteria apart from what fees and interest could be garnered by the bank, and instead, on the basis of considerations of what was good for the individual or family or local business, and for the community.

The Federal government could place credit into the

18. Ibid.

19. Ibid. The problem is reflected in the monetary accounting of assets and liabilities. The banker, under this insanity, regards as a prime asset the short-term loan made to a speculator or financial predator whose financed activities were destroying the local community on whose economy the bank's ultimate soundness and prosperity depended; from a money-based view, the predator paid his bills on time, and the profit (interest and fees) on the loans was realized quickly. On the other hand, the banker, operating on this basis, saw as a liability, a long-term loan made to a company that gainfully employed dozens of people but was currently down in the dumps due to the depressed economy. The ability of that company to survive was in the interest of the community and, ultimately, the bank itself; but bankers, using these accounting criteria, would not loan the company the long-term credit it needed; the short-term profitability of such loans was in doubt, limiting the funds that might be available to lend to speculators!

hands of these bankers by issuing contracts for work, under various agencies and projects, or through the purchase of equipment and services from local customers. The banks would then discount these contracts, lending on the basis of anticipated Federal payment for new plant and equipment, or for hiring of personnel.[20]

The "Hoover" bank panic of early 1933 had threatened to destroy this essential credit distribution system. FDR's swift intervention averted this disaster and kept the locally based national banking structure in place.

FDR was a strong believer in local banks and local bankers. He was, by nature, suspicious of the big national banks and their efforts to jump across state lines. To prevent this, he insisted that Treasury enforce the 1927 McFadden Act, which barred interstate banking, except under certain delimited conditions, the enforcement of which had been rather flaccid under Hoover. In efforts to protect Savings and Loans operating in larger communities and cities such as New York, the newly created FDIC was instructed to enforce "Reg Q," which barred banks from offering interest on checking accounts.[21]

FDR appointed the regional banker Marriner Eccles (left) as chairman of the Fed. Wielding Hamiltonian principles, Eccles challenged the views of the "wise men of finance" that the Depression had resulted from "God-given laws" of the business cycle.

Even with this, local banks and savings institutions came under increased pressure, as Wall Street made it more difficult for them to borrow money at reasonable rates in the interbank market.

Roosevelt, with Eccles' help and approval, moved to get funds into the local banks, using Federal credit to bypass Wall Street's sabotage:

• When Congress authorized money for FDR's public works jobs programs, those funds for local projects were deposited by Treasury in the local banks, which could then use those deposits as the basis for lending capital for local projects, mortgages, etc.;

• Large sums of money, created through Federal borrowings, approved by Congress, such as by the Tennessee Valley Authority, or for the construction of the large dams of the Western states, were deposited in regional and local banks to increase the capital base for lending;

• With Eccles' approval, all Federal contracts, including for various construction and other projects, were eligible for discounting by the Fed.

Perhaps the most significant action taken to enhance local banking involved Roosevelt's creation of a dedicated lending system to finance housing, anchored by the local savings and loans, whose deposits were Federally insured. FDR "handled" his mortgage crisis, one which threatened half of all homeowners with foreclosure in 1933, not by focussing on the mortgages and property values per se, but by reorganizing the local banks that issued the mortgages, protecting them, and making it possible to renegotiate mortgages on appro-

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20. Hamilton envisioned such a local means to distribute public credit. His three reports to the Congress—"The Report Relative to the Provision of Support of Public Credit" (1789); "The Report on a National Bank" (1790); and "The Report on Manufactures" (1791)—are the founding documents of the American System of economy and are must reading for any student of this subject. They are also crucial to understanding the ongoing fight between proponents of the American System, and the Anglo-Dutch slime mold of financiers of which Wall Street's bankers and financiers are a controlled component. FDR's banking practice, as well as that of Eccles, can be fairly stated to come from a Hamiltonian impulse still then embedded within the national economic culture. For these reports, see Nancy B. Spannaus and Christopher White, eds., *The Political Economy of the American Revolution* (Washington, D.C.: EIR News Service, 1995) and Jacob Cooke, ed., *The Reports of Alexander Hamilton* (New York: Harper Torch Books, 1964).

21. The destruction of Reg Q in the 1980s opened the floodgates for the assault on primarily depository institutions, such as S&Ls, by predator banks.

priate terms or issue new ones. As I have explained elsewhere,[22] he created a temporary Federally run mortgage and workout facility, the Home Owners Loan Corporation (HOLC), to rework and write down mortgages, then reissue them backed and insured by the government; these mortgages, initially held by the HOLC, were eventually resold to banks.

Roosevelt believed that only local bankers could understand mortgages as they should be understood—as investments in the local community and its well-being. To make this point clear, FDR and his advisors regulated the mortgage-lending market to encourage lending institutions to hold onto the mortgages for their term. The S&Ls, as local depository-based institutions, were most suited for this task. If they ran short of lending capital, FDR asked the commercial banks to create a relending institution that could buy the mortgages from the local banks, and hold them, with the local bankers continuing to collect from mortgagees and paying into the institution. When Wall Street refused to do this, FDR authorized the creation of the Federal National Mortgage Association, or Fannie Mae.[23]

The Past as Future?

When confronted with what was up until then the worst financial and banking crisis in the nation's history, FDR did not bail out the banks. He did not buy up bad financial paper and debts. He reorganized the system, writing off and down bad paper, and created a regulatory umbrella to protect against future abuse. When Wall Street threatened and demanded subservience to the "economic royalists," FDR didn't flinch—he exerted the power of the Presidency to force them to back down. He effectively "nationalized" the Federal Reserve, for at least the duration of his Presidency, taking control of the Fed out of the hands of the enemies of this nation and making it function as a de facto national bank, acting as a complement to the policies of his New Deal. This, as Rex Tugwell has said, was indeed "revolutionary."[24]

The feisty prosecutor Ferdinand Pecora. assessing what FDR had accomplished, wrote, for a 1935 magazine article: "About a year ago, the United States government marched in and took possession of Wall Street. I don't mean that Uncle Sam confiscated property down there and put the brokers in chains. I mean it hoisted the American flag, over Wall Street, declared it to be part of the United States and enacted some laws for its government."[25]

FDR was never really able, despite the efforts of his ally Eccles, to force the money-center banks and the merchant banks to lend to business or for the national interest. At every step of the way, this cabal still tried to sabotage his policies. Roosevelt was forced to bypass them, to inject credit directly through his locally based national banking apparatus. It wasn't until the majority of this crowd reluctantly agreed that the British Empire's Hitler project had gone off the rails and had to be defeated, that private credit was provided for the war mobilization, starting around 1939.

While the national banking system FDR created was by no means perfect, still, with Wall Street hemmed in by regulations, it continued to function past Roosevelt's death in 1945, and the removal of Eccles from the Fed a few years later, by President Harry Truman. But now, after years of assault by Wall Street-sponsored deregulators, that system has morphed into something far worse than what confronted FDR in 1933. Now the descendents of those "money changers" that Pecora exposed and FDR battled, are demanding impossible bailouts of mountains of worthless paper and bankrupt banks, demands which, if carried out, will send us all hurtling towards a New Dark Age collapse.

Lyndon LaRouche, invoking the spirit of Roosevelt's Revolution, has called for a rejection of this insanity and a return to FDR-style, Hamiltonian national banking and credit policies that would reorganize and reregulate the U.S. banking and global system for a "Global New Deal" of large-scale economic development and infrastructure projects. In this case, the past can indeed point the way towards a better future.

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22. L. Wolfe, "Lessons from FDR's Handling of the Housing Crisis," *EIR*, April 6, 2007; and "Put the Toothpaste Back in the Tube: Rebuilding FDR's Dedicated Lending System for Housing," *EIR*, July, 27, 2007.

23. Contrary to the insane blatherings today about Fannie Mae and Freddie Mac from Congress and others, they performed the useful and necessary function described above, *as long as they were part of a closed-in, dedicated lending system for housing*. What happened is that Alan Greenspan and, later Ben Bernanke turned the institutions into cash cows and debt farmers for the real estate bubble and speculation. FDR would have been aghast at the use of Fannie Mae to market or purchase financial paper, such as mortgage-backed securities or credit derivatives. This is what destroyed Fannie and Freddie and it was done precisely because Greenspan et al. knew that, since the Federal government implicitly stood behind them, their bad paper would have to be bailed out.

24. Tugwell, op. cit., and Lindley, op. cit.

25. Ferdinand Pecora, "Wall Street Under the Flag," *Colliers*, March 20, 1935.