What Is America's National Credit? Can We Use It for Real Economic Growth?

Review by Paul Gallagher

PART 1 OF A TWO-PART SERIES.

A Resource of War—The Credit of the Government Made Immediately Available: History of the Legal Tender Paper Money Issued During the Great Rebellion, Being a Loan without Interest and a National Currency
By Elbridge Gerry Spaulding
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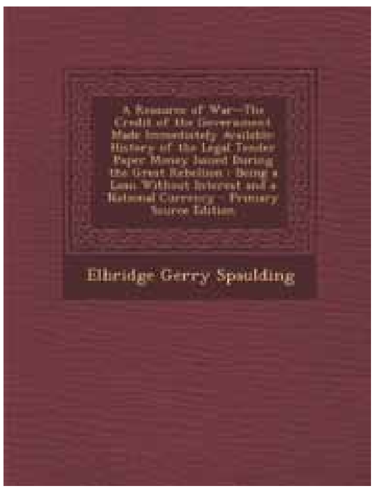

April 5—Once again in March, a region of the United States has been devastated "by nature" because of the simple failure or refusal to build major systems of basic infrastructure—planned many decades ago. This is the fourth time since 1993 that the Upper Midwest of the country has been overwhelmed by massive flooding of the Missouri and Upper Mississippi basins, with widespread loss of human life, killing of millions of livestock, loss of stored crops, and harm to thousands of square miles of farmland and rural infrastructure. Even more heavy rain and flooding is forecast over the next months. The flood-control system for the Missouri and Upper Mississippi to prevent this mass destruction of life and wealth, was engineered out and proposed for the Army Corps of Engineers in 1944! As with the Tennessee Valley Authority (TVA), it would have cost a fraction of the wealth that floods have now destroyed.

America's unending failure to renew or even repair its economic infrastructure since the early- to mid-20th century has become a national crisis. Since the financial crash in 2007-08, trillions of dollars have been printed and made available to Wall Street and City of London banks for their capital and liquidity. Not only has this denied national credit to the economy; it has made the crisis of our deindustrialized economy worse, and now threatens a new Wall Street financial blowout. Claims that these same banks are ready to "invest in infrastructure" are a joke; they demand 10-12% annual return to do so.

Legislators constantly claim—even as they finish making impassioned pleas for new infrastructure!—that "We don't know what the source of funds for this could be."

Everyone, from the engineering experts to the informed average citizen, knows that the *more-or-less immediate* investment needed, if we're going to have a high-productivity industrial economy again, is counted in trillions. Yet elected officials are unable to guess where investments in the low hundreds of billions, even over a decade, could come from.

Just imagine what would happen if they should suddenly be given the task of funding a war for the very survival of America. That is what the author of this "forgotten" book *succeeded* in doing.

Moreover, it is not just basic economic infrastructure that needs to be renewed; it is manufacturing and industry, in quantity and quality. The United States economy has five million fewer workers producing goods than it did four decades ago in 1978. Industrial production today is at the same level as it was in 2008. Electricity generation is below that of 2007. Agricultural production is equal to the level of 2004, according to the Agriculture Department's Economic Research Service. Annual new home construction and sales are at the level of 1995, according to the Commerce Department; costs and rent have

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New home construction and sales are at 1995 levels. Meanwhile, construction, mortgage, and rental costs have all risen dramatically.

responsibility for issuance and regulation of its currency, disaster ensues. Basic economic infrastructure, such as large-scale water-management, general transportation, production and distribution of energy, general communications, and essential urban-industrial common services, must be either provided by the government, or provided by governmentally-regulated utilities. Otherwise, disaster ensues. On this point, President George Washington and other leading architects of the 1787 Federal Constitution were emphatically persuaded, and rightly so.

risen 33% from 2007 to 2017, right through an economic collapse in 2008-10 and glacial "recovery."

National Credit

It seems that at the most crucial times in its history, the United States has found the *national credit* to accomplish such things; yet now, it can not, at least as far as elected officials can tell.

By credit, we understand the ability to stimulate productive activity and increase living standards by making loans, or loans combined with grants, or making expenditures and investments which foster such activity. By national credit, we understand the capacity of the whole nation to afford such a stimulus, as carried out through its Federal government.

And we can make the assumption that national credit has to give that stimulus through the use of the national currency. There can be only one national currency in a nation with a healthy economic system, and it must be controlled nationally. The U.S. Constitution prohibits the states—much less local entities—from issuing "bills of credit" to circulate as money, while it allows this to the Federal government.

The great economist and founding editor of *EIR*, Lyndon LaRouche, stated the following principle in his 1985 article, "Private Initiative for Colonizing the Moon and Mars," and similarly at other times:

Whenever the state fails to exert a monopoly of

LaRouche once stated that his most prominent predecessors in the science of economics, were the universal genius Gottfried Leibniz, France's organizer of economic and military strength Lazare Carnot, U.S. Treasury Secretary Alexander Hamilton, and Friedrich List. List was a leading thinker among the 19th-century heirs of Alexander Hamilton.

Hamilton's heirs definitely included the author of this "forgotten" book, Congressman E.G. Spaulding of Buffalo, New York.

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The U.S. Federal Reserve building in Washington, D.C.

Today, in the United States, the "monopoly ... for issuance and regulation of its currency" that LaRouche spoke of, is not exerted by the Federal government (the Treasury Department) but by a very large bank *associated* with the government but run by other large private banks—the Federal Reserve Bank. It is the Federal government's deposit bank, and receives the federal tax revenues as deposits, which form part of its liquid capital. It is authorized to print money at any time to create liquidity reserves for the major private banks.

It is now being proposed by the left wing of the Democratic Party, that national credit "for infrastructure" be made available as follows: The Federal Reserve will quickly print trillions in new dollars as Federal Reserve notes, which it will lend to state public banks or community banks formed for this purpose; those banks will fund what this wing of the Democrats call "the Green New Deal."

We will consider whether this muscling of currency by the Federal Reserve Bank is a way to "make the national credit available," or would be the disaster that LaRouche warned of "whenever the state fails to exert a monopoly of responsibility for issuance and regulation of its currency."

Desperately Needed Ways and Means

First, let us consider the achievement of the author of this "forgotten" book.

Rep. Elbridge Gerry Spaulding was a Lincoln Republican from Buffalo, New York, a commercial banker, a Hamiltonian and follower of what was called then the American System of Economy, and Chairman of the House Ways and Means Committee during the Civil War. In that capacity, Spaulding wrote the "legal tender" legislation passed in January 1862 that created the Greenback currency. It was the first paper currency in American history issued directly by the U.S. Treasury—not as the currency of a national bank.

Congressman Spaulding did not simply write the legislation because of his position; he devised it, and organized support for it through the House of Representatives. His book shows that Speaker Thaddeus Stevens aided in this, but with conditions. Treasury Secretary Salmon Chase was not always helpful in this experiment. And although President Lincoln pushed the Greenback legislation and immediately signed it, he also pursued other legislation with Secretary Chase, whose objectives had to do with making national credit available both for the war *and* for long-term infrastructure investments.


Mathew Brady

Elbridge G. Spaulding

E.G. Spaulding can be given the credit for "the credit of the government made *immediately* available" to fight and win the Civil War for the Union. He and only a few other Republicans thought the war could be long and hard, and saw the need for credit potentially in the billions of dollars. That was the equivalent, in that day, of today's manifest need in the trillions of dollars for investment in a new economic infrastructure. And in January 1862, the need for billions in credit was not "over a decade," as such investment needs are glibly discussed now, but starting right away.

A Loan Without Interest by the People

Ways and Means Committee Chairman Spaulding published his book in 1869 as a complete history of the Congressional action to create the Greenbacks. He began:

> The United States, at the breaking out of the Rebellion, had no national bank currency, and no gold or available means in the Treasury . . . to carry on the war for the Union; and consequently, the means to prosecute the war had to be obtained upon the *credit* of the government, and by taxation. The fundable legal tender currency was the most available form of credit which the government could use in crushing the rebellion. It was at once a *loan* to the government without interest, and a *national currency*. [Emphasis in original.]

He made clear as well that the Union government's attempts to issue bonds in Europe had already failed. And, bonds issued to the big banks in New York City would both carry prohibitively high interest rates, and realize less than the face value of the debt.

Where was the national credit to be found? Or as Spaulding understood the question, where was the *credit of the government with the people* to be found? He answered at the start of 1862 with the issue of paper currency, "Greenbacks," as legal tender, and successfully enough for the Union to be saved.

Today's elected officials appear unable to answer that question—"Where is national investment to come from, to revive high-technology manufacturing and build new economic infrastructure?"—although today the United States Treasury easily borrows large amounts without a discount, and at low rates.

Right in the title of his 1869 "blow-by-blow" account, Spaulding describes the Greenback currency as "being a loan without interest and a national currency." Few people may think of the dollar paper currency they earn and spend, as value loaned by the people to the government; but that is what it is.

Leave aside the technical explanations of why this is the case. The fundamental reason is much clearer: The American people—through their labor, their skills and knowledge, their discoveries and inventions, the companies they capitalize and operate—create all of the real economic value which can be the basis of a national currency. The currency is issued against that national production of economic value; and the people, if they agree to accept and use it at its face value, prepare to lend some of that labor and productive value to the government, including by paying their taxes and buying government bonds with it.

If they accept the currency at face value, the government is able to repay this loan—no longer by returning gold or silver coin for paper dollars, but by providing new infrastructures and universities to raise their economic productivity, and military forces for their security, and so forth. If the people refuse to accept the currency, and it becomes devalued—leaving aside the reasons for this—the government is able to obtain much less economic value and provide much less. It is the *government's credit with the people and their institutions*, which is measured when it issues a currency.

Results of Issuing the New Currency

Congressman Spaulding stated this as follows, when he noted that the Greenback currency had devalued only to about 71 cents against a dollar of gold at the end of the Civil War, although nearly $450 million had been printed and the Union government had borrowed a total of more than $2 billion, resorting even to very short-term promissory notes. These amounts were unheard of—unthought-of—until that time.

> At the close of this year, July 1, 1865, and the close of hostilities, 1 dollar in gold was worth, in Greenbacks, $1.41. . . . All the bonds and Greenback promises now outstanding, do not repre-

National Numismatic Collection, National Museum of American History

A $1 Legal Tender Note from the Series 1862-63 Greenback issue.

sent tangible property and means owned by the government, but property in the possession of people under its jurisdiction. . . . In short, the debt must be paid from the earnings and income of the people, in some form of taxation to be enforced by the government. . . .

> It was the people's loan to the government, without interest, and was at the same time advantageous to them, because it was money in all business transactions.

More importantly, Spaulding next outlined the reason the people would easily make good the Federal government's debt, represented by the issues of Greenbacks and the new "national bank currency" which began to be issued near the end of the Civil War under the bank reorganizations of President Lincoln. The results of investing the new currency—progress of the real economy, and greater productivity of the people, despite the destruction of the war—would make the future repayment of that debt of the nation easy:

> The resources of the country will increase with as great rapidity as its population. New and improved systems of communication are expanding in all directions; the Atlantic and Pacific slopes will very soon be bound together by iron bands "across the continent"; the mechanic arts, improved machinery, with agricultural, mineral and commercial facilities fully developed, will carry the nation so rapidly forward in power and resources, that nothing need prevent the Government, ... and as early as the year 1900, from pay[ing] the last dollar of the debt incurred in crushing the greatest rebellion known in the world's history, and without retarding the growth and prosperity of the great Republic.

The national debt, in fact, fell from 30% of estimated GDP in 1865 to less than 5% in 1900.

Did the printing of so much new currency, so rapidly, produce inflation? Spaulding detailed that it did, especially during 1864. But because the new currency was mobilizing such increases in productivity, inflation—which also increased wages—was not harmful:

> It would seem [he wrote] that no other country could have borne up under such a sudden expansion of the credit circulation, and the changing of so many men from producers to destroyers of life and property. This great inflation of the paper medium had, however, some compensating advantages. It stimulated into wonderful activity all the productive energies of common labor, skilled labor, and machinery of all kinds.

Were new taxes necessary to make the credit of the nation available? They were. Spaulding wrote:

> The Act of July 1, 1862, called the INTERNAL REVENUE LAW, provid[ed] for a levy of duties on various domestic manufactures, upon trades and occupations, and also a system of stamp, license, income, and other duties. And the Act of July 14th, of the same year, largely increased the duties on imports. These laws were from time to time amended and enlarged, until large sums were realized from this mode of taxation, and formed a very substantial basis on which to rest the credit of the government for the large issue of notes, bonds, and other obligations.

But, because of the great increases in productivity, industrial technology and infrastructure—and despite destruction of lives and wealth by the war—these tax rates fell over the next generation and the national debt was dramatically reduced, as America became the world's leading industrial power.

The *same* process occurred during the 1930s New Deal and the mobilization of World War II. Internal Revenue Service data shows that household and corporate tax rates rose dramatically as the national credit was made available through the Reconstruction Finance Corporation, TVA, Public Works Administration, war mobilization authorities, etc. Technological productivity in the economy rose at the fastest rate in our history during those decades. Then tax rates fell, slightly in the 1950s and much more in the 1960s and 1970s.

The productive *effect* of the national credit—a debt of the government—made the repayment of it easy to the next generations.