What is a credit (as opposed to a monetary) system?

The following is part of the transcript of the May 5 LPACTV video, “Hamilton’s Constitution” posted at www.larouchepac.com. Contact CEC for a copy (DVD #3808).

Today’s historians are incompetent, because they don’t understand the difference between Adam Smith’s feudal Europe, where private banks had arbitrarily given value to money, holding the sovereignty of nations hostage to the amount of this money they have, or go into debt to private banks to have, on the one side, and on the other, Alexander Hamilton’s revolutionary hypothesis of 1779-1781, a system where governments have no need of going into debt to private banks, or praying to the market to create money upon which the nation subsists. …

In 1779, as aide-de-camp to General Washington, Alexander Hamilton began writing to leading members of the Continental Congress that the credit of the nation was being lost, and current methods had to be changed. We were acting as a motley of disunified states, without the power to carry out a unified intention. Confronted with this situation, he chose to take personal responsibility for securing the rights of mankind, for which he had written extensively in defense of the Revolution. Hamilton looked to the higher battle which the problem implied, a problem that had doomed all earlier civilisations in Europe and elsewhere.

In April 1781, he wrote to the leading financier of the Continental Congress, Robert Morris, with a proposal that began a transformation of history: “It is by introducing order into our finances, by restoring public credit, not by winning battles, that we are finally to gain our object.”

Hamilton wrote to Morris, with a way to outflank the problem of the collapsing value and increasing scarcity of the Continental paper currency, a way to support the Continental Congress with enough funds, despite the facts that the states were broke, and hesitant to supply the Congress. Rather than depending on loans from abroad, private individuals, or scarce taxes, which no matter how fast they were gathered, were spent even faster, the way the government could secure a permanent paper credit, was to construct a National Bank:

“It would promote commerce, by furnishing a more extensive medium, which we greatly want in our circumstances. I mean, a more extensive, valuable medium. The tendency of the National Bank is to increase public and private credit, industry is increased, commodities are multiplied, agriculture and manufactures flourish, and herein consists the true wealth and prosperity of the State. By converting the currency produced through loans of the bank, into a real and successful instrument of trade, it would increase the quantity and strength of the currency.”

> “A currency should not be uttered, or not be allowed to exist, *unless it is based on the will of a sovereign state, to create that system of credit as debt.* It’s the ability of the nation-state to go into debt, and to go through bankruptcy reorganisation of debt, in order to establish the sovereign authority of a people over its own currency and credit. That is a *credit system.*”
> *Lyndon H. LaRouche, Aug. 1, 2009 webcast*
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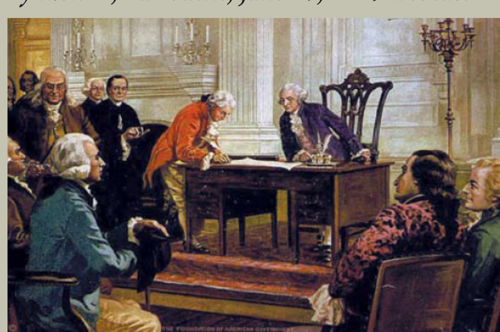
> “A monetarist system is based on what? It’s an empire: It’s based on a system of currencies, which are controlled by people *outside government:* This is called the free market!”
> *Lyndon H, LaRouche, June 27, 2009 webcast*



The signing of the U.S. Constitution, Sept. 17, 1787.

Morris was convinced, and the Congress chartered the Bank of North America that year, a bank whose sole reason for existence was to facilitate the development of a national economy.

In old Europe, a bank’s money came from private property of nobles. But the money which the National Bank loaned came from bills of credit created by a sovereign government, credit as an expression of intention, not credit of a pledge to pay. And since the initial capital which formed the bank would put the nation as a whole, rather than the states, in debt, the new national debt served as a powerful cement to the union, a spur to industry, thus transforming the meaning of debt, altogether—“A national debt, if it is not excessive, will be to us a national blessing; it will be a powerful cement of our union.”

By this new bank serving as a tool of the Continental Congress, Hamilton transformed the United States from a monetary system into a credit system—almost. … [It wasn’t able to function until after the Constitution was established in 1787.]

Under the U.S. Constitution and Hamiltonian American System, the government has no need of money. It does not gather money, nor loan money, but rather, by the power implied in Article 1, Section 8’s clause, to borrow money in the credit of the United States, it emits bills on the credit of the United States to the Treasury, which can then be turned into whatever serves the purposes of money, for the economy. Then, by receiving these bills of credit from Congress, the Treasury uses the National Bank to coordinate the distribution and allocation of this credit, for the nation’s intention. This process creates a sovereign currency, which is a reflection of the nation’s power to act, not something to be speculated upon.

Debt is redefined: A creation by government, through an emission of credit, a sovereign government does not go into debt to someone else. Rather, a government states its intention to carry out an action it deems necessary, and accounts for that action by an issuance of credit. The debt it creates will now be used to account for carrying out the purpose for which the credit was issued. There is no money involved in that process. Hamilton’s revolution bluntly stated, that money in exchange, has no self-evident value outside that process, and is only a means by which the credit of government is transferred.

Economic value is redefined. The only value in a nation-state economy is that which serves to provide for the common defense and general welfare. Therefore, the credit system defines value as that which contributes to increasing the powers

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of labor to accomplish greater strides of development. The value of a currency is the power of the physical economy, increased by the process of government credit directed in such a fashion. Therefore, money only has value, if it is tied to the emission of credit.

The lesson lies before you, now: the difference between Hamilton's credit system and the monetary system currently strangling the world. The United States is the only government on the planet with the constitutional authority and obligation for a credit system. Only if the Federal government borrowed some guts from Hamilton, and used his credit system, releasing the government from the monetary shackles which it has created for itself, could we pull the United States and world off the current path which the bankrupt international monetary system guarantees.