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LaRouche: The Space in Which To Live  
Trans-Atlantic War Faction Pushes Back  
The Drumbeat Grows for Glass-Steagall

## The Doom of the Libor Rate: The End of an Imperial System



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e-mail: [eirns@larouchepub.com](mailto:eirns@larouchepub.com)

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Webmaster: *John Sigerson*

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Editor, Arabic-language edition: *Hussein Askary*

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(703) 777-9451

**European Headquarters:** E.I.R. GmbH, Postfach

Bahnstrasse 9a, D-65205, Wiesbaden, Germany

Tel: 49-611-73650

Homepage: <http://www.eirna.com>

e-mail: [eirna@eirna.com](mailto:eirna@eirna.com)

Director: Georg Neudecker

**Montreal, Canada:** 514-461-1557

**Denmark:** EIR - Danmark, Sankt Knuds Vej 11,

basement left, DK-1903 Frederiksberg, Denmark.

Tel.: +45 35 43 60 40, Fax: +45 35 43 87 57. e-mail:

[eirdk@hotmail.com](mailto:eirdk@hotmail.com).

**Mexico City:** EIR, Ave Morelos #60-A, Col Barrio

de San Andres, Del. Azcapotzalco, CP 02240,

Mexico, DF. Tel: 5318-2301, 1163-9734, 1163-9735.

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# EIR

## From the Editor

Don't think of the Libor fraud as a scandal, but as a marker for the end of the mass-murderous post-1971 system, commented Lyndon LaRouche in the wake of the eruption of evidence of the criminal conspiracy to fix that interest rate, on which the fate of hundreds of localities around the world has depended. In this issue of *EIR*, you will get LaRouche's unique perspective on the future which this development portends—as long as patriots fight to achieve it.

In his two major articles for this issue, "The Doom of the Libor Rate: The End of an Imperial System," and "Glass-Steagall Understood: The Space in Which To Live," LaRouche focuses on the scientific principles and the concept of man which are required to meet the challenges of the future, including those arising from changes in our galaxy. The first of these articles is complemented by our exposition of the actual content of the Libor-rigging. Politically, it portends the political destruction of the Obama Administration, starting with the crimes of Treasury Secretary Geithner. Economically, the rigging has literally threatened the lives of millions through its deliberate looting.

Make sure you read all the boxes—they provide some spice.

The implementation of Glass-Steagall is crucial to ending the Libor crime: see our report on the progress of H.R. 1489. After Glass-Steagall, the U.S. will then have to go to a credit system and a new national banking system. We pick up from our article in the June 22 issue on the Second National Bank, which British traitor Andrew Jackson sought to destroy, with a sequel on Biddle's Bank which shows you how a previous generation of Americans actually *did* reject monetarism, and applied credit for development.

The danger of war, of course, has not gone away, as you will read in our article on the provocations in Syria—and an exclusive interview exposing the media lies on what's happening in that besieged nation. And if you wonder how our military could be led into another no-win adventure, you need only read our military correspondent Carl Osgood's first hand report on this year's Unified Guest wargame at the Army War College.

As we go to press, another major implosion of the criminal financial system is occurring, around the exposure of HSBC's record of drug-money laundering. *EIR* has been on top of this Dope, Inc. story for decades—see our unique coverage next issue.



## Cover This Week

*Waiting for the  
axe to fall?  
Geithner and  
Bernanke should  
be in the docket  
for the crimes  
they have  
committed.*



U.S. Treasury Dept.

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THE DOOM OF THE LIBOR RATE:

## The End of an Imperial System

by Lyndon H. LaRouche, Jr.

Thursday, July 12, 2012

*A one-time, virtual British puppet, France's late President Mitterrand, played a crucial role in destroying the economy of more than western and central Europe from a certain date, through to, in effect, the present time. The evidence continues to turn up. The original decision was made when Mitterrand, expressing a certain likeness to the intentions of Napoleon III, implicitly threatened all-out war against Germany, should Germany not submit to the status of becoming a puppet of what would become known as a "Euro" system under British supervision. The change which came to western and central continental Europe, occurred at a moment when the Soviet Union had entered a state of its collapse, during which what had been once East Germany was about to be unified with what was then "West Germany." France's President Mitterrand virtually threatened warfare against Germany, lest a free Germany be reunited.*

*The condition for peace set by a pack composed of Mitterrand, Britain's Margaret Thatcher, and U.S. President George H.W. Bush, was the elimination of Germany's sovereignty under what was thence to be known as "The Euro System." the end of the sovereignty of the respective nations of continental western Europe. The present threat of the disintegration of Western and Central continental Europe, and, also, the*



*The oligarchical principle "has the lawful consequence of generating the recurring general collapses of what had once seemed to be, the powerful and rich, as the case of the Roman Empire and its successors, each, illustrate the case." Shown: Thomas Cole, final painting in his series, "The Course of Empire": "Desolation."*

*British Isles, had actually begun in those moments.*

*Now, suddenly, the direction of events is changing again, at the present moment for the very much worse. An insightful, important current in the leadership of Britain, has proposed that Britain join together with the United States in a new, Glass-Steagall orientation of the trans-Atlantic region—and, clearly, much more besides. It was almost inevitable that many would react suspiciously to this news, as some of my own associates had done—temporarily, of course. Nonetheless, the general breakdown-crisis, as a spawn of Gramm-Leach-Bliley, the trans-Atlantic fraud which is termed “The LIBOR rate,” has lately been caught out by circles in both the United States, and Britain itself, and that by the tail at this moment. There are many uncertainties afoot at the moment; but, whatever happens, the present form of trans-Atlantic financial machinations, is at its present, actually mass murderous, and utterly very dirty end. All this was set into motion in about 2001: following the decadence introduced as the U.S. Gramm-Leach-Bliley hoax of November 12, 1999, the swindle which set the great trans-Atlantic LIBOR hoax into motion for its effort to destroy, among other targets, the United States of America.*

*The target-in-fact of Gramm-Leach-Bliley had already been the destruction of the United States; now, some leading circles in Britain have recognized that the destruction intended for the United States, was directed against Britain, too. The rush for remedies must now proceed accordingly.*

*I, for one, foresee the prospect of the turn to a “classical” Franklin Roosevelt remedy, that same original Glass Steagall law, which the Gramm-Leach-Bliley swindle had been created to destroy. This alternative is now the only sane alternative to the virtually utter doom of trans-Atlantic civilization as we have ever known it. Similarly, some leading circles in Britain now share the concern which I and others here have expressed.*

*At the best, or worst of the matter, the net effect of a successful rescue from the current swindle of U.S. Treasury Secretary Timothy F. Geithner, President Barack Obama, et al., will also be a sudden, and deep shrinkage in the surviving portion of that which passes for money in circulation. However, in fact, there is no necessity for increasing the suffering of the population; exactly the contrary. The needed credit for prosperity will be forthcoming*

*I explain.*

*Much too much of what has come to pass as nomi-*

*nally “money in circulation,” has been turned into worse than worthless trash at a presently accelerating, hyper-inflationary rate. The hope of a happy alternative for such a situation, is to be located in what is to become recognized as a **credit-system**, rather than the intrinsic suffering of the many under a present continuation of a **monetarist system**.*

*Lest the discussion be entangled in exchanges of conflicting choices of the monetarist double-talk, better identified as “usury,” let us examine the actual remedy for the monetarists’ mess which our immediate opportunity has dumped upon us now. When you think about all that, the result may be a fear concerning what we might think, temporarily, will have become a loss; but, then, look back to the method by means of which President Franklin D. Roosevelt saved the United States from President Herbert Hoover’s threat of an even worse depression than Hoover’s victims had already suffered. The threat to the U.S. and Europe now, is far worse than anything which even Hoover’s victims might have expected.*

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## I. The Notion of Economic Value

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To come directly to the point, the prevalent, might we say, “traditionally popular” notion of money, is associated with the widespread, misleading belief that money has an intrinsic value, in and of itself, as distinct from the value of use-in-process of currency by society. In reality: *the required value is not that of money, but of its use as credit invested in the increase of the effectively physical wealth of society. Since the founding of the U.S. Federal Constitution, value must be defined, as our first U.S. Treasury Secretary demonstrated the point, in a productive process of change, change essentially in the physically-efficient increase of the per-capita, physical value, of what is produced in net excess of that which had been consumed by production.* This indicates a necessarily short passage in time, as time is to be expressed in the process leading from the start of the cycle, towards some subsequent outcome which might be of usefulness to mankind. That function, expressed as a process, is the notion of credit.

Granted, the fact is that that principle of credit was violated, as under the two terms in office of the swindler and U.S. President Andrew Jackson, two terms which, inevitably, were concluded, necessarily, with a massive U.S. bankruptcy known as “the Panic of 1837,” a “Panic” which had been organized by such as the



Library of Congress

*It was the violation of the principle of credit, as under President Andrew Jackson, which, inevitably, concluded with the "Panic of 1837." An anti-Jackson caricature of the time shows the effects of the Panic. A flag flying on the left notes sarcastically, "July 4th 1837; 61st Anniversary of our Independence."*

agent and assassin Aaron Burr, and by Martin Van Buren, et al.

Hence, we speak of a credit-system as to be distinguished from a monetarist system. Essentially, we must recognize the systemic quality of that distinction of a monetarist system, from a credit system, as this was defined as a distinction of the American system which is to be recognized in the relatively successful role of the Pine Tree Shilling in use during the high-point of the economy of the Massachusetts Bay Colony, for as long it enjoyed sovereignty. Those citizens of Massachusetts had understood the meaning of their policy correctly; unfortunately, they lacked the degree of political authority to defend the truth of their cause, when faced with the ferociously hostile military force of a New Venetian Party commanded by William of Orange.

However, as true as those categories of observations would be, as a truthful argument to be made for the Massachusetts cause, while the argument is describable as "fair" and not untruthful, it does not go to the depth of simply defining an actually physically efficient principle. Truthful, is not necessarily "proven." Relevant currents of modern science, when properly applied, should do better.

The known history of living processes on record, since long before the times of human life, demonstrates,

clearly, that the processes of life known to us from evidence gathered within this Solar system, are governed, in long-term direction, by a requirement that living processes are governed by a required increase of the relative energy-flux density given to the selections from among living processes generally, that done in terms of the leading extant species, such as mankind in man's role, a role which is to be defined characteristically in the use of fire as a standard measurement of the progress of our species' successful existence.

In other words, the standard for survival of a particular species from among all considered species, can be based usefully on a rule-of-thumb standard of

increase of the rate of increase of energy-flux density of the leading species, and of the equivalent of cultures among species. This coincides exactly with the absolute distinction of the human species, as being, characteristically, and uniquely, a "fire-bringer."

This fact would have been readily triumphant in mankind's opinion-shaping, except for a factor identifiable as "the oligarchical principle." It has been the general rule among well-known levels of development of cultures, that the usually reigning human power known to us presently, this far, has been the so-called "oligarchical" stratum among individuals and parties, which has customarily considered itself to have been the ruling social categories' existential interest, a view intended to prevent any continued policy of practice among so-called "lower classes," which would promote the equivalent of increase in relative energy-flux density of a nation, or set of nations among what are broadly designated as "the lower social classes." Stupidity among the relatively poor and poorly educated, as the case of U.S. President Andrew Jackson's popularity, illustrates the point, is a standard objective of the reigning oligarchical classes and their "herders" of the "poorly bred."

That oligarchical principle, so broadly described, has the perhaps not so curious consequence, that the success of the reigning oligarchy in "putting down the

poor or simply illiterate,” has the lawful consequence of generating the recurring general collapses of what had once seemed to be the powerful and rich, as the case of the Roman Empire and its successors, each, illustrate the case.

To restate the crucial point to be made and emphasized: In the end of matters at hand, it is the universal self-interest of the members of the human species, to base the evolutionary development of society to promote the equivalent of the highest possible development of the noëtic potential of the virtual entirety of the human species, a standard which coincides with the relatively greatest rate of increase of effective energy-flux-density of society’s direction of changes in practice, accordingly.

To restate the same point for special emphasis: it is not that the creative powers expressed by some persons in society, may, as in the exemplary case of Max Planck and Albert Einstein, be far ahead in cultural development with respect to other members of the same society. The problem associated with oligarchical rule, is that the practice of oligarchy makes even the entire society tend to become stupefied, culturally, from the top ranks, on down. It is relative stupidity, so regarded, which is the essential origin of the failures of oligarchical forms of social organization, whether the desired relative stupidity is induced by lack of education, fraudulent “sophisticated” education, or by relatively brutish or similarly backward forms of popular and other belief.

Thus, often, even usually, a nominally superior class, is also a version of some relatively more brutish class of a self-ruined society. In other words: “a society of the practical,” rather than the thinkers.

Yet, we must not end the argument at this point. We must shift the emphasis of our attention to a higher level, in not only our Solar system, but within the domain of our galaxy. The folly to be corrected on this account, is demonstrated to leading members of modern society by the evidence that assemblies such as our Solar system, never constituted a fixed system, but, rather, a reflection of the origins and subsequent evolutionary development of what we regard as our galaxy and its included Solar system. This must be considered in not merely a fairly estimated span of a few millions years of life of mankind’s existence on Earth, but over a term of evolutionary development in a presently fairly known direction, *as if* in terms of billions of years.

What this means for mankind, above all else, is that it is worse than merely childish, to measure the destiny of our human species in the mere terms of a kind of arith-

metic unfolding of a sequence of generations of living individual personalities. To put the necessary emphasis where this discussion belongs, the essence of the matter is shown by an ordered sequence in the evolutionary emergence, development, and termination of entire species. In other words, any actually scientific regard for our own species’ actual existence, will locate that existence not within the bounds of any particular individual person, but what the effect is of the succession of individuals out of which the meaning of the existence of any mortal individual must absolutely depend. “Practical people,” who believe and act in their particular fashions, tend to be worse than merely ignorant people, probably as people of deeply impaired species’ intentions.

Those among us, who have absorbed the qualities of “lessons of experience” as I have indicated immediately above, must think in a direction which is typified by the work of such exemplary scientists as Max Planck and Albert Einstein (going into the Twentieth Century) as before and also beyond, who could not be considered truthfully as scientists if they had not rejected the notion of pre-determined limits on mankind’s origins and destinations. If any person lies in the future of mankind beyond our ken, and if we reject our responsibility for promoting that future prospect for mankind, we incur tendencies toward a certain criminality of negligence respecting our duty to that which must come after us. What happens to the universe as we know its possible future, is our presently implicit responsibility in the end.

Mankind, for example, has entered a period within our Solar system (and beyond), which already indicates certain various nearby, types and degrees of hazard confronting the nearby-future generations. It is our ability, intellectually, and morally, to orient ourselves to meeting the challenge of a foreseeable aspect of our species’ future within the cognizable bounds of our Solar system and beyond. Such are the proper obligations of self-development for those truly qualified to be trusted with the foreseeable future of mankind. That, precisely that, is the proper standard for leadership within the nations of our society now. Admittedly, presently, that standard is barely acknowledged at all; the time is growing late, when the leading edge of our nations’ culture, can avoid that span of a practicable sense of mission for the future.

That is, defined top-down, what must be the standard for the education of the coming, presently younger generations. That is not a matter of privileges; it is a matter of enjoying a true sense of being efficiently



human slightly beyond, at least, the future ahead of us now.

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## II. The New Era In Progress

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In the course of those decades during which I had often made reference to the works of such highlighted topics of my personal special interest as Filippo Brunelleschi, Nicholas of Cusa, Shakespeare, Johannes Kepler, Gottfried Leibniz, the Ecole Polytechnique, Lejeune Dirichlet, Bernhard Riemann, Max Planck, and Albert Einstein, the latter five are of continuing, outstanding modern relevance bearing on subject-matters which are specific to this presently immediate subject-matter.

There have been many notable scientists, as also personalities in the domain of Classical artistic composition, such as Wolfgang Köhler, Johann Sebastian Bach, Arthur Nikisch, and Wilhelm Furtwängler, and the profoundly revolutionary V.I. Vernadsky, whose work has had distinctive features of extraordinary relevance for my own in matters reaching beyond the ordinary estimation of so-called “sense-perception.”

It can be said fairly, that the great impediment to the successful treatment of so-called “physical-scientific” work, has been excessive emphasis on what may be fairly condemned as an emphasis on a formal mathematics associated within the ontological bounds of mathematical physics. For reason of the special emphasis required in approaching the subject matter specified for this report, I must emphasize that what is often considered the conventional view of mathematical physics contains a grave error of universal principle, a view which is condoned on the basis of a small-minded outlook on the problems of understanding which are inherent in reliance on sense-perception as treated in some degree as “self-evident.” The most convenient of the appropriate names for this commonplace mistake, is indicated by pointing toward the ontological implications for physical science of the notion of *metaphor*. The work of Nicholas of Cusa, and, with some emphasis on Cusa’s follower Johannes Kepler, is notable on this account.

Stubborn habits of popularly ingrained belief usually block the pathway to insight into what I had just indicated as this problem. That obstacle is the literal, reductionist’s belief in that which is customarily classified as “sense certainty.” This striking, but nonetheless elemen-



CC/Gryffindor

Filippo Brunelleschi’s “miraculous” Pazzi Chapel: “It’s a wonderful instrument; it’s a ‘tuned’ chapel. . . . If you sing in there, it will sing back to you,” LaRouche exclaimed, during a webcast last July. The chapel (1440s) is located in the Church of Santa Croce in Florence, Italy.

tary fact, was made clear to his collaborator, Max Planck, by Wolfgang Köhler, respecting the ontological principle of the human mind (as distinct from a “brain” per se).

The “fatal flaw” which Köhler pointed out to his collaborator Max Planck, is the mathematician’s deductive presumption that the universe is built up from discrete elements, whereas Köhler had discovered and demonstrated the opposite to be true. The mind is not composed of “words,” but, for the best thinkers, metaphor, instead of the commonplace attempts to fulfill the more appropriately intended meaning of what were merely individualized words and phrases. The function of true metaphor as the essential meaning of thoughts, is crafted by the wholeness of the development of a particular human mind. It is the universal which generates what is to be recognized as superseding the particular. In other words, the principle of metaphor, as the cases of Bach, Nikisch, and Furtwängler demonstrate the underlying principle which is rooted in the principle of J.S. Bach’s **Preludes and Fugues**.

It is only when scientific method is grounded in the

principle of metaphor, that the member of the human species rises categorically above the beasts, by building the notion of the future as ruling over the experience of the past and present, just as that is done in great Classical poetry, such as John Keats' "Ode on a Grecian Urn," or the concluding paragraph of Percy Bysshe Shelley's **A Defence of Poetry**.

A related case is to be recognized in Johannes Kepler's crucial employment of the notion of "vicarious hypothesis." Reality is not expressed naively in deduction from the nitty-gritty of so-called "facts," but as by Nicholas of Cusa in his

**De Docta Ignorantia**, on which true modern science was based, and as Brunelleschi crafted his miraculous chapel. It is only in the unification of Classical artistic composition's foresight into the future, as ironically juxtaposed with notions of sense-certainty, that the work of true genius in science and Classical artistic composition finds a common resolution in escape from reductionism.

I should restate here, for the purposes of emphasizing the underlying point which I have just presented, that there is a monstrous error implicitly embedded in the reductionist notions of sense-certainty, or its like. The virtually "measured difference" resides in the notion of the future *per se*. This fact was efficiently presented by Albert Einstein, in particular, in the elimination of the futile sorts of ontological presumptions associated with the virtually pagan-religious worship of space-in-itself and time-in-itself, as in the discoveries upon which certain of the most fundamental notions of modern physical science have depended.

The crucial point situated in those considerations, involves the inclusion of the conception of life-as-such within the domain of physical space-time. There are

*When old age shall this generation waste,  
Thou shalt remain, in midst of other woe  
Than ours, a friend to man, to whom thou say'st,  
"Beauty is truth, truth beauty,"—that is all  
Ye know on earth, and all ye need to know.*

—Keats, from "Ode on a Grecian Urn"



*Portrait of John Keats (above) by William Hilton; drawing by Keats of the Sosibios vase (ca. 1819); portrait of Shelley by Alfred Clint.*



*The most unfailing herald, companion, and follower of the awakening of a great people to work a beneficial change in opinion or institution, is poetry. At such periods there is an accumulation of the power of communicating and receiving intense and impassioned conceptions respecting man and nature.*

—Shelley, from "A Defence of Poetry"

*"It is only when scientific method is grounded in the principle of metaphor, that the member of the human species rises categorically above the beasts, by building the notion of the future as ruling over the experience of the past and present, just as that is done in great Classical poetry, such as John Keats' 'Ode on a Grecian Urn,' or the concluding paragraph of Percy Bysshe Shelley's 'A Defence of Poetry.'" —LaRouche*



precisely two leading aspects to this subject-matter: the existence of life as such, for one; and, the existence of an efficient comprehension of the actual experiencing of a future, as by mankind. The profound, ruinous notion to be defeated for the sake of a competent approach to the general subject of a body of physical science, requires destroying dependency on the crutches of unfounded presumptions inhering in the attempted ontological distinctions of time and space. The proximate demonstration of travel from Moon to Mars within the span of approximately a week, by future means of thermonuclear fusion, points directly toward the folly of popular traditions respecting the relevant ontological characteristics of physical space-time.

That quality of evidence, once considered, has the promise of the cardinal effect which impels the human mind to consider physical space and time, and creativity **per se**, as mankind mastering the future as our subject, rather than theirs. That brings some crucially important facts into play, for the sake of seeing what, why, and who we are in the unfolding scheme of our creative role in reshaping the meaning of our existence in our universe.



# A Scandal for Bankers and A Funeral for Banksters

by Paul Gallagher

July 16—Once again, with the Libor (London Inter-Bank Offered Rate) scandal, it has been revealed that the world's largest conglomerate banks systematically commit fraud, to increase their securities-dealing profits at the expense of cities, states, nations, even the very lives of people.

This time, prosecutions for fraud should see banksters to prison, finally, after two decades of torturing and looting the world in the wild “securitization” era—which really began with the London “Big Bang” deregulation of all banking in 1986.

Well before the handcuffs go on, the United States can *stop the crime*, which is still being committed, by reenacting and enforcing Franklin Roosevelt's Glass-Steagall Act, with other nations taking the same action. In the past three weeks, the severity of the Libor scandal has catalyzed important British figures and publications to propose a revived Glass-Steagall to the United States. Glass-Steagall bank reorganization will get the large commercial banks off the crime-ridden streets of casino securities-dealing, and will remove those “investment banks” and securities broker-dealers who operate on those streets, from all forms of government protection—unless it be protective incarceration.

The Libor rate-rigging scandal will expand to nearly all major international banks and come to feature President Obama's favorite banker, JPMorgan Chase CEO Jamie Dimon. It confirms that the most immense global mass of securities, the financial derivatives contracts, overwhelmingly represent criminal activity, cheating, and fraud, with no redeeming social value. The biggest investment banks in the United States alone, led by JPMorgan Chase, have, in the past four years, put \$200 trillion “worth” of derivatives securities into the commercial banking units of those banks—*implicitly pledging depositors' money and FDIC insurance to back them*. The Glass-Steagall Act will rip the rug of deposit

insurance, Federal Reserve lending, and promised bail-outs out from under this multi-hundred trillions mountain of derivatives fraud, and bar commercial banks from engaging in it. That will stop the crime, and the 99% of all U.S. banks that have *zero* derivatives exposure, can carry on the banking.

But we also have to prosecute. Rigging the Libor rates, which had become the world economy's most important interest rates, for profit, constitutes fraud, one which is now being admitted by executives of a growing number of megabanks hoping to cop deals and escape prosecution. As we will show, when it comes to the securitizing banks' largest mountain of financial derivatives contracts, known as “interest-rate swaps,” the rigging of interest rates is fraud with deadly consequences, for the cities, states, public authorities, and others that have been sold these swaps based on the Libors. An estimated \$450 trillion in derivatives contracts are based on the Libors.

## Obama an Obstacle

President Obama and his Justice Department will again be the Wall Street-protecting obstacle to this. Obama has repeatedly insisted that although the banksters may have done things immoral, they have done nothing illegal. As for Attorney General Eric Holder, his press release on the settlement of Barclays Bank's admitted Libor-rigging is a paean of praise for Barclays CEO Robert Diamond and the wonderful cooperation of all the other Barclays executives (see box). The DoJ is also, according to sources of the *Wall Street Journal* and *New York Times* in recent days, offering immunity from prosecution for rigging Libors at least to UBS and HSBC.

Agreements by Barclays traders with other bankers involved in the Libor process are, on their face, conspiracies in restraint of trade, which the Sherman Act

says are illegal, and those who engage in such conspiracies “shall be deemed guilty of a felony.” *Intent* is clear; the traders knew they, and other banks, were committing illegal acts. As one Barclays trader put it in e-mails to traders at other banks, “Don’t talk about it too much; don’t make any noise about it please”; and “This can backfire against us.” Yet the Justice Department Criminal Division said its agreement with Barclays was reached in conjunction with the Anti-trust Division.

As for Treasury Secretary Tim Geithner, he abetted the crime. It’s already been shown that he knew about the Libor-rigging five years ago, but turned a benign gaze upon it, helped bail out the banks involved, and ignored further exposes of the practices in the financial press (see box).

The forces that are moving to reinstate Glass-Steagall will also have to finally push Obama, Holder, and Geithner out of the way.

### The ‘Worst Scandal’ and Serious Crime

On behalf of all the trans-Atlantic megabanks, the Bloomberg News panicked July 13, admitting the seriousness of the crimes now exposed and the vast number of victims.

In an prominent editorial, “The Worst Banking Scandal Yet,” Bloomberg wrung its hands that the big banks are caught in their crimes and could all be destroyed. “The scandal over the manipulation of Libor has the potential to become one of the most costly and consequential in the history of banking. If the financial institutions involved want to prevent it from *overwhelming their businesses* and damaging the broader economy, they’ll have to act fast” (emphasis added). The financial news service said that “Investigators in the U.S., Canada, Europe and Asia are piecing together a breathtaking portrait of avarice and deceit. . . . More important, criminal charges for the first time could threaten a significant number of bankers and traders with jail terms for their actions during the financial crisis. . . .”

This contrasts dramatically with Geithner’s indifference and Holder’s praise for one of these banks agreeing to pay a settlement equalling 1% of its annual revenue.

But then the editorial turned to the tens of thousands of potential lawsuits, some of which are already being filed. “A systemic disaster,” it cried. “Plaintiffs ranging



U.S. Treasury Dept.

*Treasury Secretary Tim Geithner should look worried: He’s up to his neck in the Libor-rigging crime.*

from investment firms to municipal governments, many of which bought bonds or entered into contracts that provided payments tied to Libor, are demanding compensation from banks for intentionally pushing down the benchmark. Attempts by traders to rig Libor on specific days, portrayed in detail in the Barclays case, will undoubtedly elicit more legal actions.

“Estimates of payments related to lawsuits are currently in the billions or tens of billions of dollars”—but then, Bloomberg took a swing at measuring the magnitude of the crime. “Consider this: If Libor was understated by an average of only 0.1 percentage point for a year, the discrepancy on the roughly \$300 trillion in interest-rate swaps outstanding at the time [2008] would add up to \$300 billion.”

Rather than “cripple the entire banking system,” Bloomberg advised, “Bank executives, regulators and prosecutors should be thinking now about how to come clean quickly, compensate the victims and move on.”

“Out, out, damned spot!”? With victims all over the world nursing \$300 billion in losses *per year* since the

2007-08 collapse? And many of those losses measured in layoffs, in lost city and state services, closed firehouses and police stations, even in deaths of human beings? Such a scheme won't work this time.

### **'Rip-Off of Cosmic Proportions'**

Former Labor Secretary Robert Reich, an insistent advocate of re-enacting Glass-Steagall, put it this way:

"It would amount to a rip-off of almost cosmic proportions—trillions of dollars that average people would have received or saved on their lending and borrowing that have been going to the bankers instead. It would make the other abuses of trust Americans have witnessed in recent years—predatory lending, fraud, excessively risky derivative trading with commercial deposits, and cozy relationships with credit-rating agencies—look like child's play by comparison."

Already, four years ago, in the AIG collapse/bailout case, New York Insurance Commissioner Eric Dinallo showed Congressional investigators that 90% of all "credit default swaps" contracts—another form of financial derivative—were "bucket-shop activities," patently crimes under the laws of all U.S. Federal states for the last 100 years.

Already in April 2010, Sens. Carl Levin's and James Coburn's hearings proved that the banks' mortgage-backed securities business and collateralized debt obligations—still another type of derivative—constituted

securities fraud in the hands, at least, of Goldman Sachs' top executives, at the expense of their clients and the government. Levin referred to the Justice Department for criminal prosecutions; AG Holder said the DoJ was "studying Senator Levin's referrals"; no prosecutions ensued, and Goldman escaped with a fine of half of one percent of its annual revenues.

Now interest-rate swaps—the biggest pot of derivatives—are also exposed to the world as securities fraud for profit, with grave human consequences. And JPMorgan Chase has admitted fraud by its derivatives division in its own second-quarter financial report. In the bank's conference call on the report, CEO Jamie Dimon and executive James Cavanagh absolutely refused comment on anything regarding Libor.

### **How It Was Committed**

According to combined public reports, 14-16 of the largest "universal banks" in the world are now under investigation by U.S. and European authorities for rigging the Libor rates to their profit and the world's economies' loss. These are Barclays, Lloyds, HSBC, RBS, Credit Suisse, UBS, Deutschebank, Rabobank, Dexiabank, Citigroup, JPMorgan Chase, Bank of America, Goldman Sachs, Royal Bank of Canada, and Mitsubishi Bank. The number may grow to 40, according to the *Wall Street Journal* reporters who have exposed the rigging in occasional articles since 2008—which articles triggered the investigation of Barclays in April of 2008.

## **Geithner in 2008 Let Banks Decide About Libor**

All of Treasury Secretary Tim Geithner's May 2008 proposals to the Bank of England, on what to do about flagrant Libor rigging by the biggest banks, came from the conspirator banks themselves.

When the New York Fed was forced to release documents on July 13, 2012, showing that its then-president Geithner had long known of the rigging of the Libor rate, it "featured" for the media his June 1, 2008 e-mail to Bank of England head Mervyn King,

suggesting reforms. But none of Geithner's suggestions would have stopped the rigging of the rate. Moreover, when the Bank of England ignored them all, Geithner did nothing.

Most tellingly, *Huffington Post* columnist Ryan Grim established in a column July 16, using the Fed's own July 13 document-dump, that *every one* of the six recommendations Geithner sent King he had simply passed on from the Wall Street bankers whom he had consulted on Libor. Each of them appears identically, often word-for-word, in a May 20 New York Fed staff memo beginning, "A variety of changes aimed at enhancing Libor's credibility has been proposed by market participants [banks].... These proposed changes include, but are not limited to..."

The investigation of Libor rigging started with the U.S. Commodities Futures Trading Commission, and covers at least the period 2005-09. The number of banks which have admitted that they are under investigation include, besides Barclays: Citibank, JPMorgan Chase, HSBC, Royal Bank of Scotland, UBS, and Deutsche Bank(-Morgan Grenfell). In addition, Swiss authorities are investigating manipulation of the Euribor lending rate by UBS, which has taken the first steps toward admitting and settling. And there will be more.

Amid this welter of underfunded civil probes—Barclays was investigated for more than four years before the DoJ's mild settlement—12 U.S. Senators issued a demand July 12 that the investigations be criminal as well as civil, and potentially include investigations of regulators (including Geithner) who abetted this immense, years-long series of crimes.

Through the mid-1980s, long-term interest rates—like those on state or municipal bonds—were based on prime rates set by central banks. After Libor was launched and took off from the financial deregulation of the mid-1980s, the importance of prime rates withered away, supplanted by the untraceable, daily variable, bank-riggable Libors. By 2000, the Fed and other central banks had started to ritually pronounce that they had “no control or influence over long-term rates.” Issuers of long-term bonds were at the mercy of the megabanks' Libor, and the ratings agencies' dicta on how much “above Libor” they would have to pay to borrow.

The Libor rates for overnight, one-month, three-month, and one-year interbank lending are essentially set by 18 megabank members of the British Banking Association (see box). They gave the original meaning to the term “liars' loans” from the mortgage meltdown. These banks simply state, every day, what interest rate they claim they *would pay* if they were borrowing, say, 3-month interbank money that day. If they do borrow, they can submit documentation of that; but if they don't do so, their statement is accepted at face value, as long as it's not too far out of line with the other megabanks' statements. Then, Thompson-Reuters, the British version of the Bloomberg financial data firm, “calculates” the rate for that day. And thus do hundreds of trillions of dollars of interest-rate swaps, other derivatives, and variable-rate loans of every conceivable kind the world over, receive their borrowing rate.

Since 2000, with long-term fixed rates washed

away, and even ultrashort discount rates being pushed way up, then way down, then up again, by Alan Greenspan, states, cities, and public authorities the world over were buying “interest-rate swaps” and related derivatives from the megabanks. They were sold as “protection” from the wildly fluctuating Libors which threatened to send these agencies' bond-interest costs sky-high. They had virtually no choice but to issue floating-rate bonds and buy “rate swaps.”

The swaps were based on Libor rates, in bet-counterbet schemes and formulas so complicated, that public treasurers could not understand them, and were lied to about them by the salesman-banks.

These swaps then became the instruments of the municipalities' destruction, when instead, Fed chairman Ben Bernanke, beginning early 2007, plunged short-term rates to virtually zero, and the Libor was pushed dramatically downward by what is now exposed as criminal rigging of the rates by the banks—in order to get themselves bailed out from the 2007-08 crash.

The interest-rate swaps contracts required the municipalities to issue bonds with initially low interest

## Liborgate: Who Fixes The Libor Rate?

*The Board of the rate-setting British Bankers Association (BBA) is made up of senior executives of the following 12 banks:*

Barclays Bank plc  
BNP Paribas  
Citibank NA  
Credit Suisse  
Deutsche Bank AG  
Hampshire Trust plc  
HSBC Bank plc  
JP Morgan Europe Limited  
Lloyds Banking Group  
Santander UK plc  
Standard Chartered Bank  
The Royal Bank of Scotland plc

rates which “re-set” higher in stages. The banks bought these, but then “swapped” their interest rates with those of other securities. The municipality then paid a gradually escalating interest rate, typically coming to rest at 4-6%; while the bank paid “interest payments” to the municipality based on a Libor rate—which broke steadily downward. This got much worse when these swaps markets “froze” in the 2007-08 crash, and states and munis suddenly were told they had to issue new bonds with rates as high as 8-9%, or default.

### 50 Times the Rate of Interest

By 2010, according to one exposé, “states and local governments are paying about 50 times [the rate of interest] the banks are paying.” *New York Times* reporter Gretchen Morgenson, in a June 9, 2012 report, estimated that cities and states are still paying the banks 12 times and up, what the banks are paying them in the “swap.” And the governments had—and still have—no way to get out of these derivatives deals without huge fee pay-

ments which would gouge their employees and services.

In the United States, the *New York Times* reported urban consultant Peter Shapiro’s estimate that “about 75% of major cities have [swaps] contracts linked to this [Libor].” In Italy, France, and Spain, for example, the percentage of cities thus entrapped was even higher.

Besides all this, many tens of thousands of pension, retirement, and other funds bought interest-rate “swaps” to protect earnings on their investments, and it is clear the banks used those derivatives to loot those earnings into bank profits. And untold millions of investors bought forms of savings whose interest was based on Libors—and have earned almost nothing on them in recent years.

The banks engaged in two kinds of rigging of Libor, as noted in a lengthy analysis in July 6 *The Economist*. One, beginning no later than 2004-05, was arranged by the day-to-day cheating of groups of derivatives traders at the merchant banks, who increased the “skim” of their derivatives trades by lying their way into small changes in Libor—essentially driving the changes they

## Department of Justice Won’t Prosecute Banks

The announcement by Attorney General Eric Holder’s Justice Department of agreement with Barclays Bank on a fine for Libor-rigging, indicates how Holder will protect these banks from prosecution. Note particularly that the DoJ considers it “mitigating” against criminal punishment, that other banks committed the same Libor-rigging Barclays did, and may have been more egregious at it. Would this “comparative standard” be applied, for example, to home break-ins and robberies? Here was robbery on a grander scale.

Reports already have Holder’s DoJ offering immunity to two other megabanks, HSBC and UBS.

From the DoJ’s announcement June 27: “Barclays has implemented a series of compliance measures and will implement additional internal controls regarding its submission of LIBOR and EURIBOR contributions, as required by the Commodity Futures Trading Commission (CFTC). Barclays will also

continue to be supervised and monitored by the FSA.

“The agreement and monetary penalty further recognize certain mitigating factors to Barclays’ misconduct. At times, Barclays employees raised concerns with the British Bankers Association, the United Kingdom Financial Services Authority (FSA), the Bank of England, and the Federal Reserve Bank of New York in late 2007 and in 2008 that the Dollar LIBOR rates submitted by contributing banks, including Barclays, were too low and did not accurately reflect the market. Further, during this time, notwithstanding Barclays’s improperly low Dollar LIBOR submissions, those submissions were often higher than the contributions used in the calculation of the fixed rates.

“As a result of Barclays’s admission of its misconduct, its extraordinary cooperation, its remediation efforts and certain mitigating and other factors, the department agreed not to prosecute Barclays for providing false LIBOR and EURIBOR contributions, provided that Barclays satisfies its ongoing obligations under the agreement for a period of two years. The non-prosecution agreement applies only to Barclays and not to any employees or officers of Barclays or any other individuals.”

were betting on. The other, by 2007, was huge, and built the securitization bubble: “Barclays and, apparently, many other banks submitted dishonestly low estimates of bank borrowing costs over at least two years, including during the depths of the financial crisis. In terms of the scale of manipulation, this appears to have been far more egregious. Almost all the banks in the Libor panels were submitting rates that may have been 30-40 basis points [0.3-0.4%] too low on average.” This, on a 3-month rate usually about 2%!

Thus down went the rates on hundreds of trillions in variable-rate mortgages, junk bonds, derivatives, and more derivatives, blowing up the securitization casino-banking bubble. The Bank of England and British “regulators,” and the Fed, were clearly steering this, and did so again in late 2008, when they needed to make the bailouts of these casino banks—particularly RBS and HBOS in the U.K.—easier and more “credible.”

### **Geithner in Trouble**

This is where Treasury Secretary Tim Geithner is clearly entangled. New York Federal Reserve documents from 2007 and 2008 concerning Libor rates were released on July 12, pursuant to a letter from House Financial Services Oversight Subcommittee chairman Rep. Randy Neugebauer (R-Tex.). The document release is trouble for Geithner, who was then head of the New York Fed.

The documents prove that Barclays’ disgraced CEO Robert Diamond’s House of Commons testimony was correct on one point: He and other Barclays executives did, in fact, tell Geithner’s New York Fed repeatedly, that not only Barclays, but the other BBA banks as well, were cheating on their Libor submissions. Geithner knew this as early as the late Summer of 2007, and was aware of its continuing through the period when he participated in bailing these same banks out with trillions, both as head of the New York Fed, and then as Obama’s pick for Treasury Secretary.

One sample conversation with a Barclays executive talking to a New York Fed officer, occurring in March 2008, is typical of many: “. . . three-month libor is going to come in at 3.53. . . . It’s a touch lower than yesterday’s but please don’t believe it. It’s absolute rubbish. I’m . . . putting my libor at 4%. . . . I think the problem is that the market so desperately wants libors down, it’s actually putting wrong rates in.” On another call, the same Barclay’s executive said, “When libor was fixing at 3.55[%] . . . just to give you a clue, I got paid 4.30 in

threes [3-month loans] by Tokyo, via the yen.” Here, Barclays was lending 3-month money, not borrowing it, and the rigging of Libor had deviated the rate downward by almost one-fifth, even from market “reality.”

One Barclays trader told Geithner’s Fed, clearly referring to other banks’ Libor submissions as well, “We know that we’re not posting, um, an honest Libor.”

The New York Fed made much, in releasing the documents, of Geithner’s having reacted, with some suggestions to the Bank of England for improving the Libor in Spring 2008. But a Geithner PowerPoint on what Barclays had admitted, showed that he treated the revelations skeptically—“These claims are difficult to evaluate”[!]<sup>1</sup>—and that his ultra-mild, “best practices” recommendations were those the same Libor banks had made to him (see box).

Geithner then enthusiastically bailed these banks out, knowing that they had lied and cheated on the “mother of all interest rates” for their own profit, and the taxpayers’ loss.

### **Cities Wrung Out**

There are now literally thousands of lawsuits being initiated or consolidated internationally, because fully tens of thousands of cities, states, public authorities, hospitals, public retirement plans, and other agencies bought “interest rate swaps” in the 2000-07 period which have cost them dearly—as is now clear to all, because those contracts were rigged to loot them.

Internationally, the largest offender is the Belgian-French megabank Dexia. Outrageously, that bank, which failed in 2010, has been bailed out twice in three years, to the tune of nearly EU80 billion, and is now, as a zombie bank, demanding still more bailouts.

Dexia’s remnant bank still holds state and city loans, and interest-rate swaps based on rigged Libor rates all over Europe and the United States. It is demanding that Belgian-French-Luxembourg guarantees for its bailout be increased from EU55-100 billion immediately. But at the same time, in June, it cut off its bond-lending lines to more than 100 cities all over France, putting the cities in a severe squeeze.

In Italy, where 400 local administrations bought interest-rate “swaps” totalling EU66 billion, Dexia’s zombie is looting more than 10% of that. Its subsidiary Dexia-Crediop has sold “swaps” derivatives to 36 municipalities. Some cities, such as Florence, Pisa, and Prato, desperate at their condition with Eurozone austerity and looting payments to Dexia, have finally can-



celled these looting contracts as illegal.

One U.S. victim of Dexia's "swaps" is Denver—although Royal Bank of Canada and Bank of America have taken them over from Dexia. Denver's public schools are now paying 6.17% interest on \$396 million of variable-rate bonds to fund school pensions. Public school officials say they can't refinance the \$396 million, even though interest rates on municipal bonds are at a historic low, which would make the current interest rate only 3.99%. This rate difference would save \$8.6 million per year, enough to hire back a lot of teachers. But paying off the bonds at 6.17%, in order to refinance, would trigger a "termination event" of the bonds, demanding an up-front cash payment of the entire value of the criminally usurious interest-rate swaps. It is such austerity traps that a few Italian cities have started to break out of, taking advantage of the Libor rigging and

other bank scandals.

In the U.S., Baltimore Mayor Stephanie Rawlings-Blake told CBS News July 14 that the Libor rate manipulation hurt most American cities at the worst possible time—the depth of the recession. Baltimore balanced a \$62 million budget deficit by closing fire stations, recreational centers, and schools; the banks added \$11 million to the deficit with artificially low interest rates on "swaps." Rawlings-Blake said there was no doubt that Barclays and other banks hurt Baltimore, an inner city with a very high death rate, tied, by comprehensive studies, to poverty. "We cannot stand by when we feel that we are being cheated," she said.

The Baltimore Firefighters Union head, Michael Campbell, said that the city's safety is affected by what the banks did. Some of the fire stations had to be closed. "Say, they're closed today and nobody's there. It's

## The Libor Scandal and The European Union

*This is an excerpt from an article by Helga Zepp-LaRouche, published in the German weekly Neue Solidaritaet of July 18.*

For Europe, the consequences of this largest financial scandal in history are that the European Stability Mechanism (ESM) must be taken off the agenda! The bailout packages have unfortunately only helped the banks and speculators who, along with the Libor scandal, were probably also profiting from money laundering, and using taxpayers' money to speculate shamelessly against the government bonds of the very states that had financed the bailout packages.

Everything that the G-20 states and the EU have done since the outbreak of the financial crisis in July 2007 has proved without a doubt that the governments were being led by the nose by the major banks, which naturally were considered "systemic," or "too big to fail." The only problem is that this system is criminal, through and through. . . .

The ESM Directorate is supposed to be appointed by the EU finance ministers and to enjoy lifelong immunity. The finance ministers, the European Central

Bank, and the European Commission in recent years were either incompetent and could not grasp the fact that a gigantic fraud was taking place under their noses, or they knew about it and turned a blind eye, thinking of their own advantage. In either case it would be gross negligence. The ESM's Directorate will be able to grab funds from national budgets at any time and speculate with the money on the primary and secondary money markets, creating a lawless playground for the members of a clique, whose trademark is their lack of any feeling of guilt.

In the aftermath of the Libor scandal, anyone who continues to support the ESM is guilty of high treason to the people and the general welfare!

Therefore a two-tier banking system must be immediately formed on the European continent, which renounces the EU treaties from Maastricht to Lisbon, and sets into motion a return to sovereign control of the currency and of economic policies.

There is life after the euro! We need the introduction of a new D-mark, and the creation of a credit system in the tradition of the Kreditanstalt für Wiederaufbau [Reconstruction Finance Agency] after the Second World War, but this time for the reconstruction program for Southern Europe, the Mediterranean, and Africa, as we have proposed. And there will also be an international Pecora Commission, though in the modified form of criminal proceedings by state prosecutors.

going to take a longer time for the next truck company to get here. So yes, it's a dramatic impact on safety."

### Army of Lawsuits

A lawsuit started in August 2011 against Libor fraud, led by Baltimore, New Britain, Connecticut, and Charles Schwab Investments, is now consolidating into a nationwide action against the banksters. Some 24 class-action lawsuits brought by scores of city, agency, retirement, and investment funds were consolidated April 30 in U.S. Federal Court for the Southern District of New York, of Judge Naomi Reice Buchwald. There are 16 megabank defendants who sold "swaps" based on rigged Libor rates, accused of conspiring to suppress Libor rates, and to restrain trade from Aug. 8, 2007 to at least May 17, 2010 (Case I.D.: MDL No. 2262, 11 Civ. 2613). The suit charges that the banks "bilked" both the cities and the investors by manipulating Libor rates, and also misstated their own financial condition as bank

counterparties; it is documented with detailed charts of interest rate changes to the banks' advantage and the cities' and investors' loss.

At least a plurality of major cities, state agencies, and investment funds in the country is now studying or considering such lawsuits.

In 2010, according to researcher Michael McDonald and Morgenson of the *Times*, municipalities alone paid over \$4 billion to escape banksters' "swaps" deals, after paying monster interest rates until they did. North Carolina paid a \$60 million "escape fee" that August to Dexiabank, equal to 1,400 full-time employees' salaries. California Water Resources spent \$305 million to escape the clutches of Morgan Stanley "swaps." Reading, Pa. paid \$21 million to JPMorgan Chase, equal to a year's real-estate tax revenue, and fell into state receivership. Oakland, Calif. is being destroyed by Goldman Sachs "swaps," and a popular campaign was started in 2011 to get the city to re-

## Bernanke in Blatant Coverup for Geithner, Banks

In July 17 testimony to the Senate Banking Committee, Fed Chairman Ben Bernanke shockingly tried to justify and mitigate the Libor rigging by big banks, and the indifference to it exhibited by Treasury Secretary Tim Geithner.

Geithner, in 2008, headed the New York branch of Bernanke's Federal Reserve, and the first question to Bernanke, from Sen. Tim Johnson (D-S.D.), was about the N.Y. Fed's non-response when it knew the Libor was being rigged. Bernanke tried to claim that the Barclays Bank executives in those cases were "only," perhaps even "understandably," manipulating the world's most important interest rate to improve their bank's position, and not its derivatives profits, "as alleged in the decision." The fraudulent conduct was not alleged, but admitted by Barclays; and Bernanke's claim was not only outrageous, but a coverup—Geithner's N.Y. Fed also learned that Barclays' derivatives traders knew they were "submitting a dishonest Libor."

But Bernanke's later reactions to Sen. Jeff Merke-

ley's (D-Ore.) questions, was even worse. Bernanke claimed the Fed only knew of bank traders blatantly demanding false Libor submissions which would maximize their derivatives bets at the expense of clients, "recently, from the CFTC's investigation." That investigation is more than four years old! Merkeley then read from telephone transcripts showing clear fraud and manipulation of Libor by bankers for specific derivatives profits. "Does this constitute fraud? Does this fall into a criminal area?" he asked Bernanke, who answered "It does seem to be so, yes." Merkeley then asked "Isn't there a [Federal Reserve] responsibility to alert the customers, the municipalities that are making swaps, the folks that are getting mortgages based on Libor, and so forth?"

Bernanke's response was no, there was no responsibility, because "the financial press was full of stories. So I think there was a good bit of knowledge, at least among more sophisticated investors, about this problem."

Caveat emptor, said the banks' primary regulator about what is shaping up as the worst, most massive, most damaging criminal fraud ever committed in the banking sector.

Bernanke's attempt at a shameless coverup for Geithner, will turn out to be a big mistake for the Fed Chairman.

nounce these derivatives contracts.

More recently, New York State has bled to Wall Street \$243 million—which it had to borrow on Wall Street.

Research by the Refund Transit Coalition found that a sample of 1,100 current “swaps” derivatives at more than 100 government agencies, together are robbing taxpayers of \$2.5 billion a year.

Pennsylvania Auditor General Jack Wagner has made and published a study of the thousands of interest-rate swaps sold to government entities throughout his state by banksters. Philadelphia and its school district had lost \$331 million, as of 2010, in net interest payments and cancellation fees, and stood to lose another \$240 million to Morgan Stanley, Goldman Sachs, Wells Fargo, and other banks. Reading and Harrisburg had both been pushed into state receivership by termination fees on swaps; Harrisburg’s incinerator project spiralled out of control into \$300 million of unpayable debt, with the help of multiple interest-rate swaps. And “swaps” had cost Bethlehem \$10-15 million above normal financing charges in 2009 alone, Wagner’s study found.

Now—after the same banks which rigged the Libor rates have been bailed out with perhaps \$6 trillion in purchases, and \$25-30 trillion in liquidity loans by U.S. and European governments and central banks—these banks can borrow at virtually zero rates. But the states and municipalities trapped in their “swaps” can *not* re-finance their bonds, and continue to pay 6-8% interest or monster criminal “penalties” to get out.

Time to turn the tables—with Glass-Steagall, and prosecutions for real.

## Reno Pays Goldman 15% Plus Fees for Derivatives

The city of Reno, Nev. may be the most extreme victim of the Libor-based interest-rate derivatives traps set by bankers—in this case, Goldman Sachs—for city managers. While the one-year dollar Libor is currently .6%, Reno has been paying Goldman 15% on its bonds since 2008, and has laid off more and more city employees, and cut more and more city programs for five straight years.

To issue bonds in early 2007 for a downtown events center and a railroad spur, Goldman sold this city of 225,000 people the biggest interest-rate swap wing-ding of all, an “auction rate” derivative. This means Goldman promised to take Reno’s long-term bond for \$210 million, and re-finance it *every month*, selling it to different investors each month, turning a long-term bond into a long series of 30-day loans (with a far lower interest rate) through the “magic of derivatives.”

But in early 2008, when the “auction-rate bonds” derivatives market suddenly disappeared in the financial crash, Reno had to replace the bond with a new one—at 15%, plus pay Goldman millions in fees. It has been paying—and laying off—ever since.

Reno sought damages in a claim with the Financial Industry Regulatory Authority (FINRA) in February; Goldman, of course, is fighting this “attempt to circumvent the terms of its original agreement.”

## Lyndon LaRouche On Glass-Steagall and NAWAPA:

The North American Water and  
Power Alliance

“The greatest project that mankind has ever undertaken on this planet, as an economic project, now stands before us, as the opportunity which can be set into motion by the United States now launching the NAWAPA project, with the preliminary step of reorganizing the banking system through Glass-Steagall, and then moving on from there.”

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# Economics in Brief

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## Dutch Newspaper Promotes Return to Glass-Steagall

July 11—In an article titled, “Problematic Choice: Commercial or Merchant Bank,” in the Dutch news daily *Trouw*, Jan Kleinnijenhuis wrote that the profit drive and the general welfare cannot exist under one roof. Nor will the “softer” alternatives to Glass-Steagall, such as the British ring-fencing or the Dutch interminable talk shop in the parliament, work, he said.

Pointing out that since Barclays is not alone among the banks being exposed for their Libor crimes, Kleinnijenhuis asked the rhetorical question: “Can or may the banks continue?”; he concluded that nothing other than Glass-Steagall will work. He said that the call by the *Financial Times* for Glass-Steagall means that the City of London has concluded that a strict separation between the commercial and merchant banks is now inevitable.

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## Brits’ Strategic Message With Glass-Steagall Move

July 8—The July 7 column in support of Glass-Steagall in the London *Telegraph* by Prosperity Capital Management chief economist Liam Halligan, is notable for giving a strategic account of the turning point in history now arrived. Halligan also, like Lyndon LaRouche, makes clear that the Glass-Steagall policy will take away a lot of power—and a large amount of “big money”—from bankers on Wall Street and in the City of London.

Entitled, “Liborgate could trigger crucial banking reform,” Halligan’s column calls for a new policy. “Finally, the British political classes are starting to get it. Finally, a head of steam is building. Over the past week, calls to impose a proper division between investment and commercial banking have become louder, more authoritative and part of mainstream debate. Pressure for the introduction—or reintroduction—of this

crucial split could soon become irresistible, however much the politicians wiggle and the investment bankers deceive.

“Until now, it’s been mainly nerds like me who have advocated a full Glass-Steagall separation. Given the vested interests that would lose from this change, we’ve been lampooned for our hot-headed views.

“Yes, our message is awkward. Life would become difficult (and less lucrative) for a lot of powerful people, were we to prevail. Yet we Glass-Steagallers are right. We have history, logic and common sense on our side. And now—thanks to Barclays’ ex-CEO Bob Diamond, and Liborgate—we also have political momentum....”

Halligan reviews all the prominent Britons who have suddenly come out calling for Glass-Steagall, and demands that Liberal or Labour MPs introduce it immediately: “This split needs to happen and someone needs to get it done. There really is no alternative.”

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## Brit Glass-Steagall Calls Invoke Franklin Roosevelt

July 7—Two of the many more calls for Glass-Steagall emanating from Britain in the aftermath of the Barclays Libor scandal, invoke the model of Franklin Roosevelt, underscoring Lyndon LaRouche’s contention that the endorsement of Glass-Steagall by the British financial elites is a message intended for him personally, since LaRouche is known for his repeated emphasis on the FDR precedent.

In the first, Oxford physics Prof. Gerald Elliott, in a letter to the editor to the *Independent*, suggests that Labour Party leader Ed Miliband announce that, as prime minister, he would at once bring in a British version of the Glass-Steagall Act. “The prestige of Roosevelt is palpable and the history of the 70-plus years of financial stability after the Depression is compelling,” he wrote.

The *Daily Mail*’s Dominick Sand-

brook also invokes FDR as a “good model.” “When he became U.S. President in 1933, the economy was in ruins and there seemed a genuine chance that an anti-capitalist demagogue might capture the imagination of the American people.

“Roosevelt’s historic contribution was to rekindle ordinary people’s faith in capitalism. As soon as he took office, he passed the Glass-Steagall Banking Act, limiting excessive bank speculation and effectively insuring most people’s bank deposits. A year later, he set up the Securities and Exchange Commission (SEC) to end the culture of corporate abuses in the stock market.

“Not surprisingly, there were howls of outrage from Wall Street. But in the following decades, many of its excesses having been eliminated, Western capitalism boomed, allowing ordinary Americans to enjoy the new comforts of an affluent society.”

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## Financial Times: Sadly, Mr. Miliband Remains Vague

July 10—As part of its campaign for Glass-Steagall, the *FT*, in an editorial today, criticized Labour Party leader Ed Miliband’s policy statement in reaction to the Libor scandal, stating, “Sadly, Mr. Miliband remains too vague on one of the biggest questions: Whether to force an outright Glass-Steagall type separation of retail from investment banking. This would go further than what was advocated by the Vickers Commission and has been adopted by the government. It is now clear that ring-fencing is not enough.

“The LIBOR scandal demonstrates that Britain needs a cultural as well as a policy revolution in banking. After a week of skirmishing Britain’s leading parties should show they have understood what is at stake.”

In his statement, Miliband said that the Vickers Commission and its ring-fencing was only the starting point of Labour’s bank-reform policy, but mentioned nothing about Glass-Steagall.

# Trans-Atlantic War Faction Pushes Back

by Jeffrey Steinberg

July 17—A senior U.S. intelligence official has warned, ironically, that with the shift to support for Glass-Steagall taken by a powerful faction in the City of London, the danger of a war provocation emanating from opposing factions, in both Britain and the United States, has actually increased the danger of general war in the short term.

This assessment, presented by a high-ranking U.S. official, on condition of anonymity, coheres with a number of developments that indicate that the drive for a confrontation with Russia and China, ostensibly over Syria and/or Iran, has not been halted altogether, and that a new war-avoidance push is urgently needed—for as long as President Obama remains in office.

The most obvious and immediate flashpoint for a general war is the ongoing regime-change campaign against Syrian President Bashar al-Assad. As Russian officials, including both Foreign Minister Sergei Lavrov and President Vladimir Putin, have made clear, repeatedly, the Western powers, notably the Obama Administration, France, and Britain, along with Turkey, Saudi Arabia, and Qatar, are committed to the overthrow of the Assad government. While the Permanent Five UN Security Council members, along with Turkey and Qatar, signed the most recent document by UN and Arab League envoy Kofi Annan, pledging to work for an immediate ceasefire in Syria, none of those countries has lifted a finger in that direction, and all have continued to finance and arm the opposition, with the goal of

fueling a full-scale civil war and the overthrow of Assad.

In a recent annual address to the Russian diplomatic corps, President Putin made it clear that, under no circumstances would Russia tolerate a replay of the NATO overthrow of Libyan leader Muammar Qaddafi. Foreign Minister Lavrov has issued daily statements denouncing the West for fueling the violence in Syria. Last week, Putin dispatched 11 Russian warships to the eastern Mediterranean, in a move intended to put further muscle behind his words. Some of those Russian Navy ships just completed a port of call to Cyprus and will be arriving at the Syrian port of Tartus within days at most.

## Looking for Confrontation

According to the senior U.S. intelligence sources, a faction in London is obsessed with President Putin, and is out to provoke direct confrontation with Moscow, regardless of the risk of general war, even thermonuclear war. That same faction is now also looking at the Iranian situation as another potential flashpoint.

After three rounds of talks between Iran and the P5+1 (5 permanent UN Security Council members plus Germany), talks have been resumed at the technical level, to attempt to iron out the wide gaps remaining between the Iranian and P5+1 positions. The next negotiating session is scheduled to take place in Istanbul on July 24, between European Union negotiator Helga

Schmidd and Iran's deputy national security advisor Ali Bagheri.

Gen. James Mattis, head of the U.S. Central Command (Centcom), has told senior Administration officials that he is growing increasingly concerned that Israel could launch a unilateral attack on Iran's nuclear and missile facilities during late July/early August or mid-September. While Israeli Prime Minister Benjamin Netanyahu made a pledge to President Obama in March that Israel would coordinate any military actions with the U.S., and would not strike before the November U.S. elections, there is a growing concern that Netanyahu could break that deal and attack this Summer.

Netanyahu has so far been blocked from launching such a unilateral attack by a strong war-avoidance faction inside the Israeli defense and intelligence establishments, working in tandem with the U.S. Joint Chiefs of Staff, who are even more committed to preventing another war in the Muslim world.

Beyond the renewed threat of an Israeli preventive strike, Mattis has reported to Washington that he is increasingly worried about an incident at sea, involving Iranian Revolutionary Guard ships, or a possible Iranian move to temporarily shut the Strait of Hormuz, and he has requested a significant increase in U.S. Naval firepower in the region. There are now two U.S. aircraft carrier groups positioned in the Persian Gulf/Arabian Sea area, and a third carrier group has been dispatched to the region four months ahead of schedule. The U.S. has also deployed a large number of underwater drones to bolster existing mine-sweeping capabilities. An additional squadron of Air Force F-22s have also been pre-positioned in the area.

While these deployments are intended as a deterrent against any actions by a pro-war faction inside the IRGC, the build-up also puts the region on a hair-trigger for military confrontation.

## **Militaries Try To Prevent War**

Last week, Gen. Nikolai Makarov, Chief of the General Staff of the Armed Forces of Russia and First Deputy Minister of Defense, was in Washington for three days of meetings, including with U.S. Joint Chiefs of Staff Chairman Gen. Martin Dempsey. In a recent speech in Norfolk, Va., Dempsey had emphasized that the U.S. armed forces are adamantly opposed to any military attack on Syria, and are committed to further boosting of cooperation with Russia. The U.S. and Russia are deeply involved in joint efforts against ter-

rorism and narcotics trafficking, and the Russians are providing indispensable logistical support for the U.S./NATO mission in Afghanistan. As the U.S. military withdrawal begins this year, that Russian cooperation will be even more pivotal. And Russia and China will both be key to stability in Afghanistan and Central Asia once the U.S. forces have been withdrawn.

These military war-avoidance efforts are vital, but may not be sufficient. President Obama had made clear, following the assassination of Qaddafi, that he was prepared to move immediately ahead with military regime-change operations targeting both Syria and Iran. The efforts of the Joint Chiefs, the Russians, and military/intelligence circles in Israel and others, to prevent an outbreak of war have succeeded so far. The war party factions in the U.S., the U.K., and France have been further weakened by the onrushing financial and economic disintegration of the entire trans-Atlantic region.

Yet, the war danger has not been eliminated, and there are once again serious voices, like Generals Dempsey and Mattis, who are expressing grave concerns that the Guns of August may be fired. As a senior U.S. intelligence official recently commented to *EIR*, the war avoidance effort involves a thousand battles, and so far we have won them all. But all it takes is one loss and the war becomes unstoppable. The source warned that the combined impact of the new crippling sanctions on Iran, and evidence of a renewed factional battle at the top of the Iranian leadership over control of dwindling resources and capital, are wildcard factors that Washington has little control over.

The reality is that the Guns of August can be silenced if Obama is removed from office, by Constitutional means, before the start of the Democratic Convention on Sept. 3. So long as Obama is in power, the war party in London has a grip on the U.S. thermonuclear arsenal; that is a risk that is too grave to allow. American patriots have a limited capacity to effect the power struggle in Tehran, but they have the means to bring down Obama, on the basis of the myriad high crimes and misdemeanors that he has already committed.

A recent *Esquire* magazine article provided a detailed account of the premeditated, extra-judicial assassination of American citizens Anwar al-Awlaki and his 16-year-old son. Describing Obama as the "Lethal President," the article itself could form the basis for impeachment and war crimes prosecution at the Hague.



# Interview: Two Syrian Christians Expose Media Lies Against Damascus

*Helga Zepp-LaRouche on June 21 interviewed two Syrian Christians who have lived for years in Germany. The interview, first published in the weekly *Neue Solidarität*, was translated from German. The names have been changed and are unknown to the editors.*

**Zepp-LaRouche:** How do you see the situation in Syria today?

**Zaki:** I was in Syria in October of last year, for the funeral of a relative in northeastern Syria. We've heard many things on TV and I call my homeland regularly.

In many cities the situation is very calm; only in a few cases are there small conflicts among us, but these have almost nothing to do with [developments in] the country. The situation in central Syria is such that many people don't know why they are fighting against al-Assad, i.e., against the government. They are fighting against a religion, because those who rule the country are mostly Shi'ites, Alawites, but the majority of the population are Sunnis, and these groups hate each other and don't accept one another.

The Sunnis also had problems with Bashar al-Assad's father, from the very beginning. Today it is the sons of the former opponents of the regime who are rebelling against Bashar. And this revolution, as far as I can see, is not one in which people are demanding civil rights and liberties, but just a revolt.

Many did not want to be involved in killing, but were forced to do so by the revolutionaries. There are many minorities who enjoy civil rights in Syria; for example, the Christians—our churches and our priests are protected by the Syrian regime.

Around 3% of the population of Syria belongs

to the Syrian Orthodox Church. These people speak Aramaic and are preserving their traditions. Many of them have emigrated to Europe, America, and Australia, and so forth. The Syrian Christians enjoy special recognition from the government. We elect ministers and mayors ... and we can also practice our religion.

I know people from central Syria, from cities where there are now problems, who are Sunni terrorists. I am not saying that all Sunnis are terrorists, but there are people who murder and throw others out of their homes, and shoot at the soldiers. If the soldiers then shoot back, then immediately pictures are taken and shown on TV internationally.

There are villages in which the terrorists carry out targeted killings. Many of them come from Lebanon or Turkey. It's especially the foreign terrorists who create the problem.



*Western media propaganda, beating the drums for war, invariably blames the Assad regime for violence in Syria, even when the facts on the ground point clearly to certain opposition groups as the instigators.*

I heard a speech by the President on the opening of Parliament, in which he said that the terrorists don't have a chance. Everything will be done to protect the country; no one is needed from outside the country to rule our country.

Of course, Christians, Shi'ites, and Sunnis are all represented in the new parliament. That is, there are civil rights in Syria. Obviously they have not reached the European level. This is still an Islamic country—in Islam there are no civil rights for non-Muslims, but that is not the case in Syria.

## One-Sided Reporting

**Zepp-LaRouche:** What then do you think of the Western media-campaign on the situation in Syria? For example, the program by Anne Will, who said, "Assad allows children to be killed—how long will you watch this go on?" What do you say about this kind of reporting?

**Maher:** Let's just say that the coverage is very one-sided and in some cases false! Syrian television, which we still trust and which we regularly watch, provides evidence—insofar as it can be scientifically verified—based on videos that the terrorists calmly carry with them, that the the shots have been clearly well-prepared. The videos are supposed to show what serves this putative opposition.

And thus it seems to me very sad that such professional TV channels as ARD and ZDF, which are in fact public stations, fall in line with that, and simply report things without having proved them to be well-founded. (You can understand how this happens with private television, perhaps because they are linked to special interests—that would obviously be the case for the stations like al-Jazeera)... No one can say that this is free journalism; it is rather controlled journalism.

Of course the Syrian government is also now carrying out an information war, no question; it also wants to polish up its image. Keep in mind that the Syrian government also uses horrible pictures to try to draw people in the country onto its side—pictures that we here [in the West] do not see: body parts lying around, infants' bodies immediately after a terrorist attack, are explicitly shown on Syrian TV. In this case I find the German press better! It shields us from such pictures. But I think that the Syrian government's intent is to show clearly, to the people within Syria: Look at what the terrorists are doing! Thus a certain fear is disseminated.

But the fact is that the Syrian state is not responsible for all the things of which it has been accused. This is

unquestionable, because we have authenticated reports, we have contact with our relatives and the diocese, which confirm that for us.

We come from northeast Syria, the city of al-Qamishli. A large group of Syrian Orthodox Christians live there.

In this region, so far, nothing has happened like what is happening in Damascus, Homs, Hama or other cities. There is no large concentration of one ethnic group in this region. Kurds, Assyrians, Aramaics, Chaldeans, Armenians and, of course, Shi'ites and Sunnis live there. In addition there are large groups of Arabs loyal to the government, who have been resettled in this region from central Syria. In this way the region has also been "Arabized."

In a word: The German media are broadcasting only half the truth. And that is sad.

**Zepp-LaRouche:** I think, less than a half-truth.

**Maher:** Less than a half-truth; that's more accurate....

**Zepp-LaRouche:** There are also many reports, for example from Roman Catholic missionaries or other monasteries, that the massacres actually first began when the Syrian Army lost control. Have you also seen this?

**Maher:** I would agree that is true. Do you know why? We cannot say that the government is not capable of carrying out massacres, because it committed massacres in the city of Hama during the 1980s. I know people who were soldiers at that time.

**Zepp-LaRouche:** But that was not this government—

**Maher:** —but his father's.

But the truth is that in the age of Twitter and Facebook, no government could be so stupid as to commit a massacre. Bashar al-Assad's government has modernized a great deal. He rules with a sense of proportion and would not commit a massacre.

It is nonetheless proven that massacres have been perpetrated against people loyal to the government, Alawites, Shi'ites, as well as Sunnis who are in positions of a high responsibility or perhaps in the military. The government would have no interest in doing this, in slaying its own loyalists, so to speak.

In addition, due to the reports of the ways by which these people were murdered, I hardly believe that this was done by the government. It was reported that the bodies were hacked up with knives and machetes, and

that frequently they were stabbed with swords. This is not the work of a regular army.

You also find horrendous videos on the Internet—I have not seen them myself—such as first came from Iraq, in which masked men take a prisoner, hold a sword to his throat, and then, while the camera rolls, cut off his head. In one of these videos the masked men speak an Alawite dialect, from the area of Latakia, and says, “You want democracy? We’ll show you democracy!” and start their bestial deed.

Yet there are no Alawites in the video, just terrorists who portray themselves as Alawites. The video is supposed to show the bestiality of the Alawites, and thereby of the Syrian government.

In Homs there was a huge incident where soldiers allegedly shot people. But there were no soldiers there, because the real soldiers had previously been ambushed, murdered, their clothes put on, and their vehicles and equipment used to shoot people. The Syrian government was actually able to prove this, because people were arrested who then reported: “Yes, we did it!” But this story did not get out here. You had to see it on Syrian TV.

**Zepp-LaRouche:** There were even announcements that terrorists from Libya, mercenaries from Syria, and al-Qaeda fighters from Iraq were systematically being smuggled into Syria and then financed by Saudi Arabia and Qatar. I do not want to speak either for or against the government; I only think that if insurgents were recruited from abroad, then the government has the right to restore order.

**Maher:** Absolutely.

**Zepp-LaRouche:** That would be the case if, for example, the Hungarians invaded Bavaria, and wreaked similar havoc; then the Bavarian government would also deploy the border police.

**Maher:** Clearly. You also have to consider what kind of situation the soldiers or commanders are in; we actually know this from eyewitness reports. The composition of the population is 80% Sunni, 10% Shi’ite and Alawite, and 10% Christian. And you find this composition in



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*President Bashar al-Assad. What interest would he have in perpetrating a massacre against his own supporters?*

almost every grouping. Thus, if there is a commander who has, perhaps, 100 men under him, then you must have this same composition: 80 of them are Sunni, 10 Alawite, and 10 Christian. The commander would most likely be an Alawite. These 80 Sunni soldiers, standing before him in uniform, would have to actually follow an order of which they probably do not at all approve. Because inwardly, let’s say, they are not loyal to the government. And extreme situations can occur in which a commander reacts differently than he really should.

But you also find this in the American Army. That is, under stressful conditions, a commander allows civilians to be shot, because he was shot at. As Mr. Zaki said, in Syria this will be filmed, if the Army did the shooting.

The situation is similar with the Kofi Annan plan: a ceasefire was supposed to be in place. I think that the government is in a situation where it could silence its weapons, but if it is shot at, should it shoot back with potatoes?

And if I then show the world—“Look here, it is the Army that is shooting,” then I am giving one-sided information.

**Zepp-LaRouche:** Basically there is a danger of civil war in the long term.

**Maher:** That would be the worst outcome.

**Zepp-LaRouche:** ... I think that somehow we must make the situation even clearer, because we face a virtual black propaganda campaign by the people who are running this campaign. In my opinion, those on the Syrian side must try to give a counter-response; the Russian media and Russian Foreign Minister Lavrov have often said how they see the situation, but that view doesn’t really break into the Western media.

**Maher:** Very concretely, the question is, what can one do? ... Our possibilities as as naturalized German citizens, but obviously also citizens of our [Syrian] homeland, are limited. We have no contact with high-level politics. We are trying within the realm of ecu-

menicism, to speak with our sister churches and to inform them about the real situation.

**Zepp-LaRouche:** But what if the Syrian churches released a joint declaration . . . to the world public? For example, if the Catholics and the Orthodox and the Alawites and perhaps others would say together that—at least it appears to me to be the case—ethnic cleansing is underway in the “freed” regions. And that it is similar to what went on in Iraq.

**Maher:** There’s no question—it is even much worse than in Iraq.

Our Bishop, Yohanna Ibrahim, from Aleppo, in the early stages of these developments, was on Syrian TV—I don’t know how often in the meantime. Clergymen from other confessions were also very strongly represented. They have expressed themselves very clearly and uncharacteristically critically. They have spoken of problems and corruption, but have pointed out that force is no solution! But we must see to it that we, as Syrian citizens, protect peace first, and then solve the political, economic, and social issues.

### Threat to Alawites and Christians

What happened in Iraq is nothing like what can happen in Syria. In Iraq there is a strong concentration of both Shi’ites and Sunnis, more evenly balanced,<sup>1</sup> whereas in Syria you have 80% Sunnis, and they will do everything to fight against, or annihilate, first the Alawites, and second the Christians. And believe me: the pent-up rage—including over the fact that the government has treated the Christians humanely—will then erupt.

Some of the slogans of the insurgents are: “Death to the Alawites and the Christians in Lebanon!” Something like that. Thus you can already see what direction the situation is going.

And thus it is again understandable, or understandable in our view, why the Syrian regime will never cave in. Because if they cave in, that will mean the death of almost all the Alawites. Because they are integrated in everything which embodies the state—every single family. Otherwise they could never have controlled this state, due to their minority status. They never could have done it without controlling all state functions.

Bashar’s father made this totally clear when he said: How can I seize the country and bring it under my con-

trol? I can only do it with the Army! And then he gave out the slogan: “No Alawite family marries its daughter to an Alawite man who is not a professional soldier.” So all the young Alawite men were, more or less, forced to enlist in the Army—that is generally known—and every Alawite has a key function. And if we then consider that also the civilian posts are held by the military—the mayors, city councils, government ministers are all generals or soldiers—then you realize that the whole state is controlled by the Alawites. And the Alawites are better situated vis-à-vis the Christians in any case, than vis-à-vis the Sunnis; you can say that.

But there is also a battle among religions in Islam, as also occurred earlier among the Christians, perhaps, so that the Pope even cursed the Jews in the Mass. If you listen to the imams at the Hajj, for example, Christians and Shi’ites are cursed so heavily that you have to wonder, how can someone pray to God, yet curse men and desire their death?

If you listen to the Shi’ites, on the other hand, they curse the Sunnis. And therefore there is a battle between these two religious tendencies; because an axis has arisen between Iran, now with Iraq (where the Shi’ites were oppressed for years), the Alawites in Syria, and the Hezbollah in Lebanon—an axis which is not accepted by Saudi Arabia, Jordan, Qatar or other states or kingdoms.

### Neutralize the Threat of Civil War

**Zepp-LaRouche:** It is our observation that, fundamentally, the Sykes-Picot dynamic has been reactivated, trying to use the religious conflict between Shi’ites and Sunnis to destabilize and control the region. . . . How do you see this? And how must one intervene in Syria to neutralize the danger of civil war?

**Maher:** Our representatives are churchmen, that is, the Bishop, the Patriarch. Bishop Mata Rohum lives in al-Hasaka (this was also mentioned in one of your articles), Bishop Hanna Ibrahim lives in Aleppo. Both have involved themselves extensively in securing peace in Syria, since the beginning of these events. They are the appropriate contact persons.

But we also have political parties, one of which demands “Assad, we can no longer accept this!” Other organizations ask, what will the future bring? What kind of change would best represent the interests of our people?

We are politically weak, and thus always rely on the protection of those in power. What will happen to the Christians if this regime falls? That is a very important question. Many face this question because they hear the

1. In Iraq: 60-65% Shi’ite, 32-37% Sunni, 3% or Christian or other—ed.



one-sided press coverage that presents the fall of the Syrian government as a sure thing. The circumstances in Libya, Tunisia, and Egypt reinforce this prospect.

**Zepp-LaRouche:** Most people don't understand that we live under an empire. If you ask the German population, if you say to any ordinary German on the street: "We must now develop Africa, where 20 million are starving! We could simply go in and build bridges, build roads, develop agriculture," 99% of all German will say: "There's nothing anyone can do."

And then I always ask people; "What does it mean if you say that there's nothing anyone can do? Do you then live in a democracy? Obviously not. We live under an empire which is dominated by an oligarchy, and people are just subjects. I want to change that, I don't accept it. . . ."

**Maher:** You want the ideal situation. We want to help to fashion the society in which we live, using the capabilities we have through Christian conduct, love of one's neighbor, honesty, and readiness to compromise.

It is important that a society have critical voices. As Christians, we see it as our responsibility to question assertions that are made—for example, that there's

nothing that can be done. Many opinions are dictated to us by the economy, for example. Personally, I believe that powerful interests are always represented in the spread of supposed facts. Thus also in the case of Syria.

We were also amazed, as Christians, that, when Christians in Egypt were seized and killed on Good Friday and New Year's Eve, that this was not newsworthy for the daily news programs.

**Zepp-LaRouche:** That coheres with the fact that the German media are even more controlled than in Goebbels' time. . . . There are forbidden topics that are never reported. Three-quarters of the media are running PR campaigns. They are not reporting news, but they have public relations firms that carrying out "social engineering"—there is no good German word for that; it that means, simply, that by repetition of certain things you change the axiomatic thinking of the population until they believe whatever you say: "Syria is a dictatorship, Assad is a dictator."

Qaddafi, until shortly before the campaign against him, was a renowned head of state with whom French President Sarkozy had conducted wonderful business, and who had forsworn terrorism; and suddenly, from one day to the next, he was a dictator. One campaign after another is carried out this way.

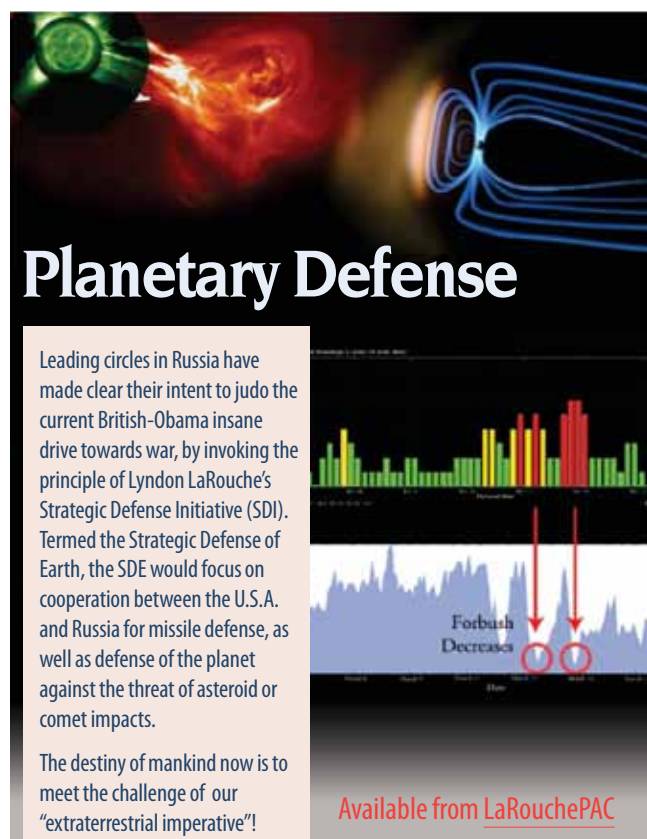
Unfortunately, in Germany, this has an effect. If you ask a Syrian what it means that an article presents such-and-such, I'm rather sure that the Syrian would ask: "Who wrote it, and what is their intention?" But in Germany they say, "Oh, that's in *Bild Zeitung*,<sup>2</sup> so it must be true." That, unfortunately, is my experience.

**Maher:** Yes, that's right.

To us it is very important that we make our voices heard as Syrian Orthodox Christians. In this specific situation, what's important to us is first, that peace in Syria be maintained. God willing, there will be no war in Syria, especially no civil war, because then the Christians will suffer the most. Unfortunately today there are already attacks on Christians.

When our Federal Chancellor meets with the Dalai Lama, all the TV stations report on it. But when the Bishop of Baghdad, or the Christian Patriarch of Lebanon meet with Merkel, they don't notice it. Thus our charges about the situation for Christians in Lebanon do not get broad publicity.

2. A popular daily, just a few cuts above the *National Enquirer* in the United States.



**Planetary Defense**

Leading circles in Russia have made clear their intent to judo the current British-Obama insane drive towards war, by invoking the principle of Lyndon LaRouche's Strategic Defense Initiative (SDI). Termed the Strategic Defense of Earth, the SDE would focus on cooperation between the U.S.A. and Russia for missile defense, as well as defense of the planet against the threat of asteroid or comet impacts.

The destiny of mankind now is to meet the challenge of our "extraterrestrial imperative"!

Available from [LaRouchePAC](http://LaRouchePAC.com)

The graphic includes a top section with a green sphere and a red/orange fiery explosion, and a bottom section with two bar charts. The left chart shows green bars of varying heights. The right chart shows a blue area chart with a red line and two red circles highlighting a dip, with the text 'Forbush Decreases' above them.

# Will the Court Rule for, or Against A Future for Germany and Europe?

by Rainer Apel

July 13—Despite mounting public pressure not to ratify the European Stability Mechanism (ESM) and Fiscal Pact treaties which transfer even more sovereignty from the member-states to the neo-imperial European Union bureaucracy, the national parliament (Bundestag) of Germany, with an 85% majority, passed the two treaties on June 29.

With that, the main battlefield against the ESM moved to the Constitutional Court in Karlsruhe, which held a first public hearing on the legal complaints July 10, because the judges had to rule first on several plaintiffs' requests for injunctions, made to prevent President Joachim Gauck from signing the treaty, keeping it on hold, and to prevent the government from any transfer of money to the ESM bailout fund.

For a period of several hours before the June 29 session, it looked as if there would be a delay of the debate and vote, because many Bundestag members (MdB)—in the government parties as well as in the opposition—were skeptical about the outcome of the EU Summit in Brussels, which had just been concluded. Most of the media, that afternoon, reported that Chancellor Angela Merkel had dropped all remaining reservations against the ESM becoming a bank or mega-fund, with the power to bail out banks directly, without having to consult with the relevant governments. The ESM was designed as a permanent fund, outside of any political or legal control, with an appointed board of governors, and with the privilege to soak as much money from the capital markets in Europe as it deemed necessary for the coming mega-bailouts.

As there was unrest among many Bundestag members, Merkel was faced with the threat of not receiving the two-thirds majority of votes she needed for the ratification of the ESM; but the opposition Green Party had already arranged with Merkel's Christian Democrats not to postpone the parliamentary session, therefore the

vote was rammed through—also with the votes of the opposition Social Democrats. The only party voting against the ESM was the left-wing Linke, which took the case straight to the Constitutional Court, immediately after the vote, as did several individual dissident MdBs from the other parties.

The court case in Germany received wide attention throughout Europe, notably in Ireland and Austria, where the opponents of the ESM intend to take the issue to their own constitutional courts; and in Italy, where the opposition is still in the early phases of preparing similar court action.

Independent Irish Member of Parliament Thomas Pringle notified the High Court on June 26 that he would file a request for an injunction to restrain completion of the ratification of the ESM treaty, on grounds that it breaches EU law, the EU treaties, and the Irish Constitution. Pringle argues that ratification of the ESM treaty is not, as the Government claims, "necessitated" by Ireland's membership in the EU, since both the ESM and the fiscal pact are treaties under international law, and not EU treaties.

In Austria, the national parliament, which also passed the ESM on July 4 (orchestrated also there with the treasonous Greens selling out the opposition, and joining the government camp), the two opposition parties, FPÖ (Freedom Party) and BZÖ (Alliance Future), had already announced before the vote, that they would take the bailout fund to the Constitutional Court of Austria.

In Italy, Sicily-based anti-ESM activist Lidia Undiemi wrote a passionate statement entitled: "The Defense of Constitutional Values Starts in Germany: Let Us Join It!" Undiemi said that the fight in the EU is not between Germany and Italy, or elsewhere, but between peoples and the oligarchy; that is why the constitutional challenges in Germany are important, because parts of the

institutions are thus defending the people. So far, no such legal action to defend the people of Italy has been launched, Undiemi charged, adding that “It is not an exaggeration to say that at a national institutional level, the defense of the Italian people against the ESM and Fiscal Compact treaties is currently being led by German representatives.”

## Public Hearing in Karlsruhe

On July 10, the nine-hour public hearing at the Constitutional Court in Karlsruhe on the legal challenges to the ESM, provided ample opportunity for the plaintiffs to explain their views, and to expose the government and the EU institutions for their anti-democratic and economically ill-founded policies. The fact that the hearing was public, and that the Court had made clear beforehand that it would take the complaints seriously, and not (as the government wished) throw them out, had the government on the defensive, even though Finance Minister Wolfgang Schäuble, in his testimony, reiterated the usual arguments for the ESM, and repeated his warnings of a collapse of Europe, if the bailout policy were not continued.

It became evident rather soon in the hearing that the government had never permitted a platform for posing alternatives to the bailouts, nor invited a sufficient number of critics of the ESM to balance out the pro-ESM experts at the Bundestag hearings. This emerged through the process of questions being raised on the timetable; on the hectic scheduling of the Bundestag session just two days before the planned ESM going into effect on July 1; on the short time period for preparation for the debate and all challenges; and from the government’s testimony—all providing strong evidence of what the government did, even in violation of the June 19 Court ruling on behalf of parliament’s right to appropriate and abundant information.



EIRNS

*The renowned law professor Karl Albrecht Schachtschneider appealed to the Court to rule against any further degradation of national sovereignty by EU institutions.*

The plaintiffs who testified at the hearing fired heavy broadsides against the government: MdB Peter Gauweiler (Christian Social Union) pointed to a long list of government violations of the parliament’s right to information, compiled by dissident Christian Democrat MdB Klaus-Peter Willsch; Peter Danckert (Social Democrat) told the court that if there were any discussions in the Bundestag committees and plenary sessions, they took place only on paper: Never were questions that went deeper into the secrets of the ESM ever answered; never were the members allowed to vote yes or no; no discussions were ever permitted that would challenge the bailout policy as such.

Christian Democrat Manfred Kolbe charged that the government never, especially

not before the June 29 debate and ratification, provided anything written on the changes made to the original ESM text; that the issue was rammed through the parliamentary session in only two hours, without Bundestag members knowing exactly what they were voting on; and what one read in the press after the June 28-29 EU summit was quite different from what the government had told the Bundestag.

## Who Will Pay?

In the afternoon session of the Karlsruhe hearing, a high point was provided by Prof. Hans-Werner Sinn’s testimony, that all the various government guarantees—from the rescue packages, the EFSF (European Financial Stability Facility), the ECB (European Central Bank), and the planned ESM, and the Target 2 program of the inter-central bank transfers—have already added up to EU2.2 trillion! Who would pay when the hour of truth arrived? Savings accounts, depositors, pension fund recipients, and the taxpayers, Sinn said. Because it is their money and their property which has been taken hostage to the bailouts that have already oc-



curred, or are planned for the immediate future. The banks are keeping that money to themselves without passing it on to the real economy—which, if at all, will be kept going only by the EFSF, ECB, and ESM in the future, again through loans and bailout programs, which are from taxpayers' money.

Bundesbank President Jens Weidmann, in his testimony, largely agreed with Sinn, only disagreeing on one crucial point: Weidmann wants to prevent a Eurozone disintegration or collapse; Sinn doesn't. Sinn said the world has seen more than 50 state defaults since 1945, which did not make the world go under; therefore, a Greek default or the default of the Eurozone as it is now, would not be the end of the world, either. But Weidmann delivered another serious blow against the government, saying that all the talk about market panic in the event of the ESM being delayed, did not make sense, because "the financial markets have already priced in such a delay; therefore, nothing will happen."

Another high point of the hearing in the afternoon session arrived, when plaintiff Karl Albrecht Schachtschneider, a renowned professor of public and international law, during his testimony, made a passionate appeal to the court not only to rule against the ESM, but to draw a line against any further scrapping of democracy and sovereignty by EU institutions, once and for all. To underline that, Schachtschneider cited the famous phrase of Germany's Classical poet Friedrich Schiller: "It is the the scourge of the evil deed, that it is forced to forever give birth to evil," a quote that has been a trademark of the German LaRouche movement (BüSo)'s campaign against the financial oligarchy's attempts to construct a neo-imperial Europe, for the past 20 years.

### **Mum on Glass-Steagall**

Another trademark of the LaRouche movement—the commitment to put an end to all the bailouts by re-introducing a Glass-Steagall standard for bank reorganization—accompanied by the creation of a system of productive credit—unfortunately, was not addressed during the Karlsruhe hearing. It could have been addressed, especially because Professor Sinn had, just a few days before the hearing, published an open letter signed by more than 170 German economists, which called for a bankruptcy reorganization law, as one of the alternatives to endless and useless bailouts of ailing banks and funds.

Talking to representatives of the plaintiffs' camp on the sidelines of the hearing, two *EIR* correspondents found significant openness to discussing Glass-Steagall, and, in particular, high interest in the fact that Glass-Steagall is on the agenda of the U.S. Congress (Rep. Marcy Kaptur's H.R. 1489), about which the German mainstream media have not published a single word, while in Austria, the FPOE has made ample use of anti-ESM and anti-bailout documentation of the German LaRouche movement, including a BüSo video.

As for the schedule of the court proceedings in Germany after the July 10 hearing: Court president Prof. Dr. Andreas Vosskuhle said that in order to decide responsibly on the injunction requests—which were the main subject of the hearing—it would require more than three weeks; furthermore, a responsible dealing with the main challenges would require more than three weeks, in fact, more than three months; the minimum standard would be nine months, if not a year. The court felt itself in a dilemma as far as the timetable was concerned, Vosskuhle said; therefore, many aspects had to be investigated, such as what would happen "if" an injunction were handed down, or ruled against; whether a ruling on the injunction would invalidate the main ruling; what the situation would be if the court, in the end, found that parts of the ESM, and not the whole treaty, were in violation of the German Constitution. Vosskuhle's remarks point to further delays for the ESM, beyond the month of August.

### **Call for a National Referendum**

In their testimonies, all of the plaintiffs made the point that the issues raised by the ESM were of such gravity, that the citizens should make the decision through a national referendum, according to Art. 146 of the Constitution, and that a court ruling should state exactly that. The pro-ESM camp fears such a referendum: All recent opinion polls have shown that up to 74% of Germans oppose the transfer of sovereignty to the European supranational institutions, whereas only 22% would favor that. Also, the Austrian opposition to the ESM has launched a campaign for a national referendum there against the "insanity of the ESM." The pro-referendum mobilization in Germany, in which the LaRouche movement has played a prominent and conceptually leading role during the past several years, will be the second main battlefield against the ESM in the coming weeks and months.

THE DRUMBEAT GROWS

## ‘It’s Now Beyond Time For Glass-Steagall’

by Nancy Spannaus

July 16—More Americans are finally beginning to get it: The system of deregulation ushered in officially with the elimination of Glass-Steagall in 1999 will destroy the United States, unless it is reversed by the re-introduction of the full FDR-modelled principle of separation between commercial banking and gambling immediately. Glass-Steagall is not a slogan, or a platform point, but a question of life or death of the nation.

The LaRouche movement, and its national candidate slate, represent the loudest, clearest voices, as indicated in today’s [statement](#) by Washington State Congressional candidate David Christie, under the title of this article. As a result of the candidates’ activity, a national movement is growing.

Crucially, there is the group of 71 Members of Congress who have signed on to Rep. Marcy Kaptur’s (D-Ohio) H.R. 1489, which mandates a return to the Glass-Steagall standard. So far, they are mostly Democrats, but reports from LaRouchePAC’s work on Capitol Hill indicate that there is enormous potential for dozens of Republicans, as well as Democrats, to join the fight—especially if they begin to hear from their constituents with the appropriate urgency. For example, it is of note that Rep. Darrell Issa (R-Calif.) is on record as having criticized the abandonment of Glass-Steagall back in 2010.

A less visible grouping is the more than 150 candidates for office—ranging from Presidential candidates

to candidates for Congress and state legislatures—who have declared themselves to be in favor of restoring Glass-Steagall.

You wouldn’t know this groundswell existed if you simply read the “official” press, of course. With the exception of prominents such as former Clinton Labor Secretary Robert Reich, Massachusetts Democratic Senatorial candidate Elizabeth Warren, and former Kansas City Federal Reserve President Tom Hoenig, all of whom have received media coverage for championing Glass-Steagall, there is virtually no reflection of the extent of the support for this vital measure in the U.S. press. Even the recent dramatic surfacing of a highly placed faction of London bankers in favor of immediately reinstituting Glass-Steagall both in England and the U.S., has not penetrated into the thick skulls of the so-called political class in the U.S.

This is what the LaRouche movement is determined to change, with a dramatic escalation of its campaign for Glass-Steagall, whose necessity is once again hitting the popular consciousness through the overt crimes of Libor-fixing derivatives-traders et al.

### **Ruled by Fear?**

President Obama and his coterie, of course, have quietly, but aggressively, made their opposition to Glass-Steagall clear. According to qualified reports to *EIR*, not only Treasury Secretary Tim Geithner and Fed Chairman Ben Bernanke, but even former Fed chair-



EIRNS/Sylvia Rosas

*LaRouche PAC organizers in Los Angeles on June 18, building support for Glass-Steagall at the AFSCME trade union convention.*

man Paul Volcker, have hit the phones to try to prevent Congressmen, and other leading political figures, from rallying to ram through Glass-Steagall.

And while Obama himself has said nothing in public, the White House website in March was compelled to answer a petition signed by more than 23,000 citizens, which called for the reinstatement of Glass-Steagall banking separation. Shamelessly, the Administration commissioned Brian Deese, deputy director of the National Economic Council, to lie through his teeth, and claim that Glass-Steagall would not have prevented the 2007-08 blowout, a blowout which Obama has infamously claimed was caused by “immoral,” but “not illegal” actions by the major banks.

Will Obama be able to continue to play dictator, in order to continue an economic policy which will result in increasing rates of death for the American population? The London shift to Glass-Steagall would indicate not—but there is no doubt that it will be a dramatic fight that many more Americans must join, not only to free the nation from the parasite banks, but also to politically remove the major political obstacle, President Obama, as well as his disastrous nominal Republican opponent.

## Speaking Out

As the crime of Liborgate increasingly hits the American consciousness (keep in mind that this “scandal” became big news due to a major story, again, in the

London *Financial Times*), some supporters are speaking out.

On July 7, Robert Reich’s column, entitled “The Wall Street Scandal of All Scandals,” took up the Libor criminality from the standpoint of pushing for Glass-Steagall. He wrote:

“This is insider trading on a gigantic scale. It makes the bankers winners and the rest of us—whose money they’ve used for to make their bets—losers and chumps.

“What to do about it, other than hope the Justice Department and other regulators impose stiff fines and even criminal penalties, and hold executives responsible?

“When it comes to Wall Street and the financial sector in general,

most of us suffer outrage fatigue combined with an overwhelming cynicism that nothing will ever be done to stop these abuses because the Street is too powerful. But that fatigue and cynicism are self-fulfilling; nothing will be done if we succumb to them.

“The alternative is to be unflagging and unflinching in our demand that Glass-Steagall be reinstituted and the biggest banks be broken up. The question is whether the unfolding Libor scandal will provide enough ammunition and energy to finally get the job done.”

Reich’s message was reprinted on July 9 in the London *Guardian*, and has been circulated widely globally.

On July 13 Massachusetts Democratic Senate candidate Elizabeth Warren renewed her call on Congress to restore the Glass-Steagall Act, citing the new and shocking facts revealed in JPMorgan Chase’s second-quarter report, in a press release entitled “Warren Renews Call for New Glass-Steagall Act To Protect Consumers from Wall Street Gambles.”

Warren said: “Banking should be boring. JPMorgan’s disclosure today of massive losses shows they are still riding the roller coaster and they need months to figure out how much risk they have taken. The announcement of losses that are more than twice the amount that was initially disclosed shows how Wall Street continues to load up on risks that can threaten both our economy and the security of regular people.

“A new Glass-Steagall would separate high-risk in-

vestment banks from more traditional banking. It would preserve Wall Street's ability to take risks without threatening people's retirement accounts and life savings."

## **The Candidates' Movement**

Warren is not alone. As of July 12, there were well over 150 candidates *EIR* has tracked (in addition to the LPAC-endorsed slate), who had publicly declared their support for restoring Glass-Steagall. At least 11 of these candidates, including LaRouche Democrat Kesha Rogers (Texas-22nd C.D.), had won their primaries (other than the incumbents who have already co-sponsored H.R. 1489), and are campaigning to restore the U.S. banking system to sanity. These include, so far, Congressional candidates for the general election in California, Indiana, and New York, as well as half a dozen third-party Presidential candidates.

Exemplary is Kevin Boyd, the Democratic candidate from Indiana's 3rd C.D., who wrote in response to an LPAC question on his support for Glass-Steagall:

"As you may know, H.R. 1489 would reinstate Glass-Steagall, which limited commercial bank securities activities and affiliations between commercial banks and securities firms, among other actions. I join Americans from both sides of the aisle in supporting this resolution.

"While I know that the presence of government in corporate affairs causes some trepidation among many people, I believe some government oversight is essential in the protection of its citizens. H.R. 1489 would help fix many of the issues not covered in the Dodd-Frank act, which many felt did not address all the important issues in preventing another financial crisis.

"The reinstatement of Glass-Steagall may actually reduce the means in which the government is involved in the banking industry. For example, the act would remove many of the safety nets in place that would no longer protect a bank from its riskiest behaviors, hopefully, forcing the banks to act more responsibly and in a way self-regulate its own activity.

"The original Glass-Steagall was essential in 1933, and created many of the institutions we see today that protect us as individuals from some of the more volatile aspects of the industry. It was also a key part of restoring America's economic power in the world and securing America's workforce. I believe that making sure Hoosiers and Americans across the country are finan-

cially secure is the key to re-energizing America's economy."

## **Replace Both Bums**

With the necessity very clearly in mind, of replacing both disastrous "front-runners" in the Presidential election, by getting Obama out of office immediately, LaRouchePAC has laid out a multi-faceted plan of action. In addition to a broad propaganda offensive on LPAC-TV, LPAC members around the country will be holding weekly Days of Action to dramatize the criminality of the *system*, and the need for immediate reinstatement of Glass-Steagall. One major focus of these Days of Action will be Washington, D.C.

July 11 was the first of the new series of actions. Thirty-seven activists swarmed about Washington, including Capitol Hill, getting out thousands of leaflets on the British shift to Glass-Steagall, a crucial development of which most of our nation's elected officials were ignorant! Rallies were held in other locales around the country as well, including, most emphatically, Wall Street.

Meanwhile, the LaRouche candidates are mobilizing, in the spirit reflected in the conclusion of Christie's July 16 statement:

"We must be blunt about this [Libor] scandal. This is not just a case where the bankers have screwed us over yet one more time. This is systematic murder in the tradition of Adolf Hitler. Hitler will look like a mere piker compared to those who created this swindle and the resulting murderous budget cuts. We must put these criminals behind bars, including those in and around the Obama Administration. They cannot be allowed to claim ignorance of the consequences of the austerity demanded by their swindle. In the lead-up to the passage of Glass-Steagall and FDR's New Deal, Ferdinand Pecora put the worst of the Wall Street scumbags on the stand, and exposed their criminal activity. We must do the same today, and implement a new Pecora Commission immediately.

"However, we aren't going to wait for the conclusion of this new Pecora Commission to pass Glass-Steagall. Glass-Steagall must be implemented now, so that we can initiate today's modern New Deal, beginning with the construction of NAWAPA XXI to employ 6 million people starting immediately. This requires the implementation of an American credit system, where credit is generated based on the credibility of the future

wealth that it produces, and circulated through a regulated national banking system as Alexander Hamilton had designed.

“We are running out of time to make this happen. Both Obama and Romney must be dumped as candi-

dates now, before the conventions at the end of the Summer. This has been the mission of the National LaRouche Slate, and we will not stop now. As was said by the genius who had recruited layers of the British to join the American Revolution, ‘Join, or Die!’”

## Signers of H.R. 1489

*This is the current list of 71 Congressional co-sponsors to Rep. Marcy Kaptur's HR 1489 (by date of signing).*

(init.) Marcy Kaptur (D-Ohio)  
James Moran (D-Va.)  
Walter Jones (R-N.C.)  
John Conyers (D-Mich.), former  
Chair, current ranking  
member, House Judiciary  
Committee, dean of Black  
Caucus  
Jesse Jackson, Jr. (D-Ill.)  
Lynn Woolsey (D-Calif.), former  
Co-Chair, Progressive Caucus  
Jim McDermott (D-Wash.)  
Louise McIntosh Slaughter  
(D-N.Y.), ranking member,  
House Committee on Rules  
Edolphus Towns (D-N.Y.),  
former Chair, House  
Oversight and Government  
Reform Committee  
Maxine Waters (D-Calif.), former  
Chair, Congressional Black  
Caucus  
Marcia Fudge (D-Ohio)  
Kurt Schrader (D-Ore.)  
Danny Davis (D-Ill.)  
Roscoe Bartlett (R-Md.)  
John Garamendi (D-Calif.)  
Dennis Kucinich (D-Ohio)

Peter Visclosky (D-Ind.)  
Jan Shakowsky (D-Ill.)  
Barbara Lee (D-Ca), former  
Chair, Congressional Black  
Caucus, former Co-Chair,  
Progressive Caucus  
Mike Coffman (R-Colo.)  
George Miller (D-Calif.), former  
Chair, current ranking  
member, Education and the  
Workforce Committee  
Hansen Clarke (D-Mich.)  
Fortney Pete Stark (D-Calif.)  
Michael Capuano (D-Mass.),  
ranking member, Financial  
Services Subcommittee on  
Oversight and Investigations  
Rep. Charles Rangel (D-N.Y.),  
former Chair, Committee on  
Ways and Means  
Rodney Alexander (R-La.)  
Raul Grijalva (D-Ariz.), Co-  
Chair, Progressive Caucus  
Daniel Lipinski (D-Ill.)  
John F. Tierney (D-Mass.)  
Donna Christensen (D-V.I.)  
Al Green (D-Tex.)  
Bob Filner (D-Calif.)  
Tammy Baldwin (D-Wisc.)  
Peter Welch (D-Vt.)  
John Olver (D-Mass.)  
Larry Kissel (D-N.C.)  
Yvette D. Clarke (D-N.Y.)  
Chellie Pingree (D-Me.)  
Michael H. Michaud (D-Me.)  
Henry C. “Hank” Johnson  
(D-Ga.)  
Zoe Lofgren (D-Calif.)

Peter DeFazio (D-Ore.)  
Keith Ellison (D-Minn.)  
Rosa DeLauro (D-Conn.), House  
Democratic Steering and  
Policy Committee (Co-Chair  
for Steering)  
Wm. Lacy Clay (D-Mo.)  
Bennie G. Thompson (D-Miss.),  
ranking member, Committee  
on Homeland Security  
Loretta Sanchez (D-Calif.)  
John Lewis (D-Ga.)  
Tim Ryan (D-Ohio)  
Collin Peterson (D-Minn.),  
ranking member, Agriculture  
Committee  
David Cicilline (D-R.I.)  
Betty Sutton (D-Ohio)  
Sheila Jackson Lee (D-Tex.)  
Donald M. Payne (D-N.J.)  
(deceased)  
Frederica Wilson (D-Fla.)  
Frank Pallone, Jr. (D-N.J.)  
John A. Yarmuth (D-Ky.)  
Michael F. Doyle, (D-Pa.)  
Susan Davis (D-Calif.)  
Dale Kildee (D-Mich.)  
Edward J. Markey (D-Mass.)  
Karen Bass (D-Calif.)  
Eddie Bernice Johnson (D-Tex.)  
Gene Green (D-Tex.)  
Judy Chu (D-Calif.)  
James McGovern (D-Mass.)  
Paul Tonko (D-N.Y.)  
Mazie Hirono (D-Hi.)  
Donna Edwards (D-Md.)  
Eni F.H. Faleomavaega (D-A.S.)  
Silvestre Reyes (D-Tex.)

# Behaviorism Invades The U.S. Military

by Carl Osgood

July 16—The “Revolution in Military Affairs” (RMA), also known as the Rumsfeld Doctrine, died a much deserved death in the dust of Iraq and Afghanistan over 2005 to 2009. The basic theory behind RMA was that Information Age technology would revolutionize warfare by giving commanders perfect knowledge of the battlefield. Now RMA has been replaced by an even more incompetent method, one that buries the physical and cognitive aspects of humanity even deeper than RMA did. That is the method of behavioral science.

Instead of getting back to the “business of war” (which means winning the conditions for the peace) as Brig. Gen. H.R. McMaster, one of the severest critics of RMA, argued for in 2010, the U.S. Army has instead plunged headlong into the pseudo-science of behavior modification. This dive into an even deeper insanity was in full view during a June 6 media day at the Unified Quest 2012 wargame held at the U.S. Army War College from June 3-8.

The doctrinal shift that the Army is undergoing was attributed, by Army officials who briefed the media, to the new strategic guidance that the Obama Administration issued last January. Indeed, there is some nominal connection between the Army’s change in posture (and that of all of the military services), and the “Asia pivot” of the guidance document, but the *method* comes straight from the clique of behavioral economists that has surrounded Obama since before he took office.

Behavioral economics ignores the science of physical-economic production, which is required to physically sustain a population, in favor of using the “pleasure-pain principle” to influence what choices they make as consumers, or even to accept a lower standard of living. This bestial view of man rejects actual human creativity in favor of British intelligence founder Jeremy Bentham’s “hedonistic calculus.”

Bentham, in his infamous *An Introduction to the Principles of Morals and Legislation* (1780), argued

that mankind is governed by only two sovereign masters, pain and pleasure. “It is for them alone to point out what we ought to do, as well as determine what we shall do. . . . Every effort we make to throw off our subjection, will serve but to demonstrate and confirm it.” Bentham was plagiarizing the Aristotelian Paolo Sarpi (1552-1623), a Venetian Servite monk, who argued that man can only know the world through his senses. Sarpi was the author of the radical, anti-cognitive, empiricist doctrine, later codified by successive generations of English utilitarians, including John Locke, Bernard Mandeville, Adam Smith, and Bentham. The cabal of so-called behavioral economists around Obama, including Cass Sunstein, Austan Goolsbee, Richard Thaler, Dan Ariely, and others, are all hardcore followers of these English utilitarians.

## ‘The Starfish and the Spider’

One source of the channeling of this kind of thinking into the military (but by no means the only one) is Ori Brafman, the Israeli-born author of *The Starfish and the Spider* and, along with his brother, of *Sway: The Irresistible Pull of Irrational Behavior*, both of which have made it onto several military reading lists. Brafman is an advocate of the idea of so-called leaderless groups, which, he claims, are a more powerful form of organization. His basic argument is that the spider can be crippled by removing one of its legs, or killed by taking off its head, but if you take off one leg off a starfish, it simply grows another leg, and the leg that was removed leg could even grow into another starfish. This makes the starfish a superior form of organization.

Why? Because it has no brain! In a presentation to a conference sponsored by the Army’s Training and Doctrine Command in 2009 (which can be seen on YouTube), Brafman used this analogy to explain how the Spanish conquistadors were able to easily defeat the Aztec and Inca empires, both highly centralized societies, but were confounded by the Apaches, a highly decentralized society. There is apparently nothing in his thinking about the moral qualities, or lack of thereof, of each of these societies, or of their form of political economy, or any other factor that may have played a role in creating the conditions which led to the political outcome in each case. Brafman is, instead, calling for the reverse evolution of human society, from higher levels of organization to lower, the oppo-



site of the direction in which the universe is moving.

The ideas of decentralization and behavior modification are what have replaced the failed RMA. When it seemed that the military services might get back to competent methods of strategy-making and war-fighting, along come the behaviorists to make sure that the U.S. military doesn't return to its republican roots.

This is what was on display at the Unified Quest wargame. Behavior modification is already deeply embedded in U.S. foreign policymaking, as any competent observer of U.S. policy towards Iran and Syria should be able to see. On Iran, the policy approach is, that if enough pain, applied through draconian sanctions, is imposed on the Iranians, they will see the light, and end their nuclear weapons program, although U.S. intelligence agencies have insisted repeatedly over the past few years that the Iranian regime has made no decision to move forward with building a bomb. If the pain fails to convince them, then military force is called for.

We have seen this already in Iraq and Libya, and in neither case can anyone make the argument that U.S. military intervention resulted in improving the general welfare of Iraqis and Libyans. In both cases, once the regime in power was removed, the violence flared out of control. Iraq remains a violent place after the withdrawal of U.S. forces last December, and Libya is ruled by militias accountable to no one but themselves, and is exporting its violence to other areas of West Africa, particularly Mali.

### Behavior Modification as Strategy

According to the officers who briefed the press on June 6, the U.S. Army sees itself making a major strategic shift, based on the Obama strategic guidance. This effort is intended to create the force that the Army thinks it must become by 2020. Until recently, the Unified Quest series was focused on solving the problems that the Army was facing in its wars in Iraq and Afghanistan. Now, the Army is out of Iraq, and expects to be winding down the war in Afghanistan. "This is about changing gears, as opposed to the last few years, where we were focused on the war-fighter, or more near-term



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*The U.S. Army's "new" strategic doctrine, based on behavior modification, is nothing but a rewarmed version of Jeremy Bentham's "hedonistic calculus," which argues that mankind is controlled by his appetite for pleasure, and desire to avoid pain. Bentham's portrait by Henry William Pickersgill (ca. 1829).*

evolutionary changes," explained Col. Bob Simpson, the director of the Army 2020 effort.

In the context of the Obama strategic guidance and the shift into behavior modification, the Army is grappling with what it calls "the human domain," although it hasn't yet fully agreed on its definition. "We don't have in Joint [services] and Army doctrine the models for thinking about going to war," Simpson explained. "We don't have sufficient ways to think about the human behavior we're trying to change. War is fundamentally about changing behavior. How do we develop a joint model for thinking" about how to change behavior?

"We need to formalize a way of thinking, before you go into war, so you understand the human behavior you're trying to change—that's fundamental to how you think about operations." Simpson referred to Clausewitz's famous dictum about war being the extension of politics by other means. "The purpose of any activity, even an attack, is to change someone's behavior. It's not just about influence. Sometimes it has to be compelled.... The military is all

about compulsion.”

Brig. Gen. William Hix, director of concepts and learning for the Army Capabilities and Integration Center (ArCIC), used the example of NATO’s bombing campaign against Serbia in 1999 to show how this is supposed to work. He argued that NATO changed the behavior of Serbian President Slobodan Milosevic by bombing the hell out of the country. The cutoff of electricity and the destruction of other infrastructure caused certain interest groups that Milosevic had a power relationship with to pressure him to come to some sort of accommodation with NATO, to bring an end to the bombing. “We were able to achieve an outcome by changing the behavior of the national leader,” Hix said. “We figured out a smarter way to do business. We understood the interactions of that society.”

This description brought to mind, at least to this author, the “system of systems” thinking that characterized the RMA. By looking at the enemy as a “system of systems,” a commander is supposed to be able, by analysis, to determine where to attack the enemy to mechanistically generate the desired effect. Lt. Gen. Keith Walker, the director of ArCIC, denied that what the Army is doing is that mechanistic. “I think the uncertainty, complexity and disorder of the environment is that way because of humans. Therefore, it’s not mechanistic,” he said. “Therefore, it’s the human nature of conflict that really matters. Therefore, our participation in what we can do personally, personal relationships, between individuals and groups makes a difference. . . .” The problem for the Army, he said, is “how do we incorporate that aspect into how we frame the problem” that is to be addressed.

## What Does It Mean To Be Human?

There is no question that an army must understand all of the terrain it is operating on, including the human element of that terrain. The G.W. Bush Administration arrogantly rejected the cultural and political expertise that would have been appropriate for preparing its invasion of Iraq, with results that most of us are familiar with. But human beings are not monkeys, as the behaviorists seem to believe. Human beings are as different from all non-cognitive animal species as living process are from non-living process. *EIR* founder Lyndon LaRouche, on the April 18 edition of *The LaRouchePAC Weekly Report*, put it this way:

“Non-living processes seem to operate in what we

call normal clock-time, normal clock-time sequence. Life appears to work that way, but it doesn’t actually do that. And above all, human creativity absolutely does not do that. And human creativity represents the expression of a principle, expression *in* mankind and *by* mankind, which is not dependent upon as such on any lower form as an antecedent. That is, you do not get life from non-life. You do not get human creativity, from mere biological existence. But rather, you get what we recognize as creativity, as an expression of the lawfulness of the universe. . . .

“If we do not understand mankind and creativity, if we stick to these things we’re trained to believe in, these things will prevent us from ever accomplishing our mission. We have to now, finally, come to the point that we recognize this principle: that the universe itself, starts with creativity, as a principle. That’s the name we would give to it, if we want to identify it: Creativity itself is a principle, a universal principle. The universe is based on that principle, at least as far as we know it: that the existence of the human mind is the highest expression we know of, on which everything depends, *that* creativity!”

Clearly, the Army has adopted Jeremy Bentham’s pain-pleasure principle as the means for making strategy, a method that will, surely, lead to more wars, rather than fewer.

It wasn’t always so, however. The historical foundation of the U.S. Army goes back to the engineering principles that were developed to a very high degree at the U.S. Military Academy at West Point during the 19th Century. West Point-trained engineers played an indispensable role in the early development of the United States, principally through the building of canals and railroads. They also played a key role in spreading this American System of economics around the world, as they worked to outflank the British Empire’s control of the seas by girdling the world with rails.

This was the opposite of the anti-human outlook of the Empire that George Washington fought to free us from. That American System outlook has been eroded since the end of World War II, and has been replaced by British-inspired geopolitics, social sciences, and behaviorism. The only way out is for the Army to return to its republican roots and drive out the sort of irrationalism typified by the behaviorists, but that purge can only begin with a political change at the top.

*cjosgood@att.net*

GLASS-STEAGALL UNDERSTOOD:

## The Space in Which To Live

by Lyndon H. LaRouche, Jr.

Monday, July 9, 2012

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*The recent effort for a virtual renaissance for Glass-Steagall, has now surged, somewhat abruptly, into a narrow, but marginally regained, leading role for those in both the United Kingdom and the U.S.A. who are now privileged to have become manifestly sensible of the present policy requirements for the survival of civilization. Rather than continuing to gamble on the outcome of civilization under what have been recent policies, mankind must begin to respond to the fact that that galaxy, which our Solar system inhabits, is currently entering a long wave of change, a change in effects to which leading currents in mankind must now prepare themselves to respond.*

*Certain so-called traditions must now be abandoned, as having shown themselves to have become worse than useless in the present circumstances; but, there are, in addition, also contrary traditions too often underestimated, which must be reawakened, and quickened instead.*

*Take, for example: “fire.” After all, the voluntary trend of increase, in modes of cultural progress and the power of mankind to exist, have always depended upon what is termed in modern language, “increased energy-flux density.” The fireside has always marked the essential difference of man from beast. It is the species which succumbs to a declining, or even merely a fixed energy-flux density in the mode of its existence, which has been the likeness of the doomed “dinosaurs” of every successive age of the biology of life.*

*In the course of what is, for mankind, the long history of life as such on this planet, we must now examine the prospect for our galaxy, a galaxy which is the location of crucial factors in the existence of our Solar system, and of life on Earth itself. Nonetheless, the distinction of the evolutionary*



Rather than gamble on the outcome of civilization, mankind must now begin to respond to the fact that the galaxy which our Solar System inhabits is currently entering a long wave of change. Shown: "The Astronomer" (1668), by Johannes Vermeer.

progress of living processes for mankind, has been more or less steadily upward in the long term, from lower to higher qualities expressed by our own living species. Such has been the effect of an adducible law of nature as known to us presently, a notion which expresses a lawful impulse which finds its outstanding present expression in the emergence of that special trait of noëtic impulses which seems, this far, to be unique to our human species. The essential distinction is, that mankind is the only species presently known to us, which is capable of voluntary evolutionary progress in its embedded species-characteristics.

Only humanity expresses truly voluntary creativity.

The world of late, most notably the trans-Atlantic region generally, has been plunging into a presently accelerating trend of (de facto) willful decline within the domain of the human species' habitation. This recently accelerating trend has been underway since the launching of the great folly of a post-President John F. Ken-

nedy, virtual decade's length of a long, wasting U.S. warfare in Indo-China. Despite some relatively transient exceptions, trans-Atlantic civilization has been in a broad, general trend of physical-economic decline, since the approximate coincidence of the essentially successive assassinations of U.S. President John F. Kennedy and his brother Robert.

Admittedly, that pattern to which I have just made reference, has not quite fit a simple trend-line as matters have appeared to many over the indicated span since the beginning of that interval. The changes have occurred, much less by the will of a passing term of apparent leadership, than as long-term trends over the course of successive generations, as since the 1890 ouster of Germany's Minister Otto v. Bismarck. The trends responsible for this effect have not been simply episodic; they have been essentially and persistently systemic in direction, and in design, over, for example, the course of the 1964-2012 interval, or, even, in my own personal awareness of this continuing long process, since the regrettable accession of the wretched U.S. President Harry S Truman.

Among the most convenient of what might be attributed to be causal features of such a long-term culturally-determined trend-line, there are, and have been the indications of a relatively long-term setting in the direction in cultural trends. Similar, has been the trend-line set into motion in trans-Atlantic policy-shaping of governments and populations over spans of several recent generations. The most recently presented initiative of certain notable figures of the United Kingdom, typifies the kind of "ripened cultural" harvest of change in the initiatives on whose effect the presently needed, more or less profound cultural and technological changes in policies depend. It is this factor, upon which the success of such urgently needed, epochal changes in direction now depends.

What has changed, most clearly and simply, is that the entirety of the trans-Atlantic system, had entered a descent into a kind of an inflationary "break-down crisis" which had been set into motion by the combination of the Kennedy assassination and the fraudulent treatment of the event, through attempted concealment of the essential facts of that case. We have come to a point of global crisis, at which there is no remaining

*option for tolerating the continuation of this presently continuing crisis, a crisis actually in progress over more than a century of hitherto prevalent parameters of change, since 1890.*

*On such occasions, the option of urgently needed, upward change, when it occurs, were to be passed along, immediately, to those leading circles which are qualified to rise above the currently tired notions of tradition which have reigned over the term of even a set of successive generations; we must now escape the shackles of those recent decades of established trends of practice. As in the instance of the outcome of Shakespeare's **Richard III**, only the rarer circles of leadership which possess "deep reserves of historical insight," as Shakespeare did, insight beyond those of ordinary political leadership, are capable of instigating those urgently needed, truly successful cultural revolutions within and among nations, and doing so under the kinds of stressful conditions which confront the trans-Atlantic world, in particular, at this time.*

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## I. The Fires of Economic Recovery

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The essential lesson of economics for this moment, is one we should learn from the history of known living species over the span from the earliest known varieties of life on Earth, up into our modern biological times. When that span is presented against the specific backdrop of several millions years of human cultures on Earth, we may name the case as being the history of the evolution of mankind's progress through the characteristic expression of advances in "the use of fire." Among the considerations so posed, we have the special case of the increase of the energy-flux density in modes of warfare, on the one side, and the recent generations' poorer progress of the per-capita increase in the rate of man's effective capture of "energy-flux density," on the other.

This is to be understood as a principled outlook overlooking both a long past, and the hope of rescue, to be provided by a prospective, immediate future alternative. Consider the following, crucial perspective.

### **War: The Bismarck Complex**

The ouster of Germany's Chancellor Bismarck in 1890, unleashed the intended state of general warfare which Bismarck's diplomacy had impeded up to that point in the process. The result of Bismarck's ouster has been, not a particular sequence of distinct wars, but a

virtually pulsating continuation of a state of general, implicitly global warfare, warfare sometimes subsiding, but still oncoming, if briefly waning, coming upon us in wave-like expressions of fluctuating phases and tempos over the entirety of the period from the ouster of Bismarck to the present date. The ironical juxtaposition of the roles of the increase of "energy-flux-density" in intertwined and contrasted warfare and production is to be considered from that vantage-point.

I have much to say on this important matter at an appropriate, later point in this present report.

Meanwhile, this ironical juxtaposition of physical economy versus warfare, then, had brought us to a breaking-point expressed in the 1944 Normandy landing and its kaleidoscopic-like, immediate consequences. The irony of the consequences of that special moment in history, was, that, despite the consequently accelerating rush toward thermonuclear arsenals and their impedimenta, the net, long-term cultural trend in world economic affairs centered upon the trans-Atlantic sector, has been chiefly downward, economically and morally, despite the instances of technical progress occurring within the context of the general economic decline. Typically, the assassinations of U.S. President John F. Kennedy and his brother Robert, and the related matter of the actual launching of the virtual decade of wasting warfare in Indo-China, brought to an end the thrust toward *net physical-economic progress* within the reach of the trans-Atlantic sector of the planet.

Thus, the ruling parameters of deliberate and correlated change in policies of social-economic progress, have defined the downward-leading edge of the trans-Atlantic world's trends, since the notable assassinations of the two Kennedy brothers. Mid-1968 has been the crucial, datable, estimated turning-point in the social process for the trans-Atlantic world. Since that time, episodic changes aside, the trans-Atlantic section of the world as a whole has never turned back into a sustained, truly upward direction up to the present time.

This process has brought us, now, to the point of "critical mass," as follows.

### **My Role in These Matters**

This locates the point at which my significant present, personal role in these developments emerged: exactly during the onset of Autumn 1977. I had not been unique in my own commitment to promote the military conception of strategic defense; but, as a participant in the formation of the Fusion Energy Foundation (FEF),



*“The long-term cultural trend in world economic affairs centered upon the trans-Atlantic sector, has been chiefly downward, economically and morally, despite the instances of technical progress occurring within the context of the general economic decline.” Glass-Steagall will begin to reverse this trend. Shown: LPAC organizing in Washington, D.C., July 2012. The chart indicates how Glass-Steagall will work.*



LPAC-TV



LPAC

I had, as if instinctively, committed myself in that direction. It became a matter of a personally independent initiative, such that I found myself, over a few following years, caught up, more and more, by what was to become known as a Strategic Defense Initiative (SDI).

From the start of that process, I had seized upon strategic defense with a certain lusty commitment. For reason of the cumulative science-driven commitment in which I participated, I came to recognize and emphasize the notion of the superiority of the strategic defense over the alternative. As a result of my advocacy to that effect, I chanced, in the setting of the process leading

into the inauguration of President Ronald Reagan, to come into a leading position in the launching of an international orientation toward strategic defense. My personal role in approaching Soviet representatives (with my government's clear knowledge), had, up to a point, engaged a shared U.S.A.-Soviet exploration of strategic defense, a shared interest which had come

near to actual adoption during the period of the still oncoming election and installation of President Reagan. Later Soviet officials had developed a contrary position, which led into the largely self-induced disintegration of the Soviet Union over the course of the decade of the 1980s.

Unfortunately, the prospect for strategic defense was soon wrecked, as much by U.S.A. and western European circles, as by a ruinous change in the leadership of the already worried Soviet economy itself. The hope of the inherently principled advantage of the defense, was thereupon postponed, until a recent rebirth now centered in the intersecting strategic-defense policies of both the U.S. Joint Chiefs of Staff and the evolution expressed in the presently current negotiations with Russia's military institutions.

The fact is:

Any general warfare between the United States and Russia, then, as still today, would be a warfare approaching a virtual extermination among the contending forces, and, perhaps, even the human species as such. The relevant experimental demonstration of that thought has not yet been made, and, hopefully, never will be.

That setting, which came to a moment of climax during the early years of the U.S. Reagan Administration, created the circumstances for both the presently onrushing general economic collapse of trans-Atlantic society, and the threat of a crucial, virtual "extermination warfare" between the clusters of the Anglo-American and opposing forces. The virtual enemies of civili-



zation, including the presently outgoing U.S. President, Barack Obama, have typified those whose foolishness would bring a virtual state of “extinction-warfare among the nations” into being. Truly competent, leading representatives among sundry sides of the military posture, have understood this. The presently reigning monetarist interests, including the current President of the United States and certain among related European factions, have so far refused to understand this.

Now, sane representatives among the relevant parties have reacted, openly, to bring the pending thermo-nuclear mass-insanity to a halt. Others have yet to face the truth of the situation.

What I have just stated, this far, in opening this chapter, demands careful reflection on the following, sundry accounts.

### ***The Role of Nature in This Crisis***

In large degree, much of what I report here, reflects work done among my associates, or by worthy other sources which have had no other ties directly to me; but, the responsibility for presenting it here in this specific form, is my own.

The present, actually scientific assessment of the natural processes of development of living species on this planet, is divided broadly, among relevant categories of specialists: among categories which are concerned with a mission of a better understanding of the principled features of the past and prospective emergence and development of the human species.

The success of our species’ self-development over the long course of its known history, has, in turn, depended, this far, upon a persistently upward evolution toward increasing energy-flux density of the cultures of human society. Such patterns of rise and fall of all living species known to us from the experience of Earth, share a quality of remorselessness respecting those species or societies which fail to rise continually in the long-ranging increases in relative energy-flux density of their modes of existence. *The rule of nature in life, is progress or become extinct. Increase the appropriate relative intensity of managed energy-flux density, or become extinct.*

The human species is distinct, categorically, from all others known to us. We, of our species, are distinct in being enabled, by our nature, to increase the potential energy-flux density of our species willfully, as no other known species has been known to have been capable of this.

It is true, of course, that life, in general, is governed by what is termed evolutionary development of living

processes; but, so far as we know presently, only the human mind is capable of truly voluntary qualities of actually willfully determined forms of such creative action. Without the use of that quality which the human mind owns as its unique capabilities, mankind would become as extinct as any other form of animal life, unless that species’ continued own existence were provided by human aid, as by animal husbandry as it is maintained by mankind.

What mankind, in its expression as society, encounters, is the same principle of fatality as any quality of living species: evolve to higher states of existence—higher degrees of evolution of our species’ capabilities, or face probably expected extinction, or quasi-extinction of the cultures which fail to progress.

Presently, that general rule which I just summarized, has taken a certain turn. Our Solar system has taken a turn into a channel within the galactic system, a turn, with which we had virtually nothing to do, and which also increases the expected factors of risk, factors which demand a compensating trend toward significant, humanly willful abilities to adapt to a sterner environment during the term ahead. In principle, as a matter of a scientific perspective, mankind’s continued progress in relevant directions of technological progress should be expected to become an unending increase in willful capability of meeting, and overcoming new qualities of challenges.

### ***Max Planck & Albert Einstein***

The standpoint of the perspective which I have just summarized, is associated with a principled notion of an accelerating increase in directions of progress which were set down by such as Max Planck and Albert Einstein during the transition from the close of the Nineteenth Century into the early Twentieth. Since the accumulated discoveries of nuclear fission, fusion, and matter-antimatter reactions, during that revolutionary interval, the onset, duration, and aftermath of what came to be named “World War I” set into motion a process of degeneration, from which there had been some notable periods of exceptions, but which have dominated the history of what is called “European civilization” up to the present time, especially with the change in directions since the closing months of 1945-1946 when Bertrand Russell, in 1946, campaigned publicly for an immediate commitment to what he termed “preventive” nuclear warfare against the Soviet Union.

That commitment, as presented then by Russell, explicitly without his expressed regret, has continued to



*It is "the force of passion, called creativity, which drives the human being, from the inside, into great achievements of science and Classical artistic composition." The musicians and scientists Planck and Einstein (shown here in Berlin, June 1929) express this quality.*

pollute and dominate the planet's internal relationships since that time, up through the present date.

Thus, the considerations of recent world history which I have indicated here in these preceding remarks, must be examined in terms of the contrast between modern physical science, as well typified by the effects of the work accomplished by such as Max Planck and Albert Einstein into the early or middle Twentieth Century, and a pro-oligarchist policy which history traces, as if to a tradition, to the conflict known as the Trojan War. The most notable fact on this account, is that we are confronted with the conclusive evidence that that model of deadly conflict among nations, could not now outlive its own inhering consequences.

## II. The Enemy Which Confronts Us

While leading circles among some governments, remain obsessed by their own, childish awe of the relatively puny forces which mankind has mustered for its petty-minded homicidal rages, the forces which now confront us, and that increasingly, within and beyond the Solar system, are the grave threats to mankind presently lurking, implicitly, within Solar system and the galaxy.

Fortunately, the advent of man's control of nuclear fission, introduced our species to the lower level of orders of magnitude of such higher forms and qualities of power far, far beyond anything which had been imagined prior to the work of such distinguished pio-

neers as Max Planck and Albert Einstein.

It is by no means superfluous for us, to emphasize the included fact, that one of the great powers which is of the greatest relative importance of all, has been the scarcely recognized benefits of a collaboration between Max Planck and his collaborator Wolfgang Köhler, respecting the outline of the proper notion of the human mind, in place of the sheer pettiness of the commonplace, reductionists' standpoints of "Tinker Toy"-like games. I shall explain this below.

Still today, after all that science has accomplished this far, society generally has failed, including the universities so far, to understand the integral relationship, the interdependency, between physical science and Classical irony, the irony of a legendary distinction between mind and matter.

The collaboration between Planck and Köhler, exemplifies the actual "connection," as the greatest of our poets and composers have expressed a view of that connectedness after their own fashion.

Köhler's emphasis on proceeding from the intrinsic unity which is the characteristic root of the natural functions of the mind, which is to be contrasted to the notion of an assembly of cluttered and clattering parts, is among the potentially most crucial considerations in applied physical science under presently advanced outlooks. It is mankind's coming to an understanding of the actuality of the developed human mind, which will prove itself to be a most crucial aspect of man's efforts to understand those great, potential powers of mind which match the vast orders of magnitude of sheer power which encompass the actuality of not only the Solar system, but, implicitly forces beyond. Such is the basis-prospect for mankind's hope of achieving its true destiny.

Now, presently, within a generation, more or less, from the present time onwards, mankind should have developed the feasibility of manned craft sent, by means of thermonuclear fusion, from the Moon into the orbit of Mars within the span of a week. The most obvious function of such particular explorations as this, will be mankind's, necessarily Earth-based defense of human life on Earth from deadly objects, such as relevant types of asteroids or comets. This is the kind of defense which includes repertoires such as early future countermeasures directed under control of mankind, organized from such distances as the orbit of Mars. This is already a known specification of defense. Such de-

fense takes mankind into a dimension of quality of action matching thermonuclear fusion-based operations.

Similarly, the development of thermonuclear fusion's functions brings mankind into the range of development of "unmanned" systems within the Solar orbits, through which mankind were to be enabled to harvest the "needed things," for matters of security of our species, from within the Solar system, and beyond.

The Solar system itself, is not an inevitable end of all for mankind. It were more or less sufficient for us presently, to look to the development of the means of matter-anti-matter reactions, for us to begin, at the least, to understand the kinds of human opportunities which may become accessible to us within the future of our present galaxy. The important thing for us to know now, is that such means are possible. Man has been around for merely an estimated few millions years; there is no present knowledge of a living creature possessed of actually noëtic powers of cognition otherwise. The range of future opportunities, well situated before a time when the Sun would almost certainly threaten to blow up, might prepare a sufficient margin of safety for our species, on the condition that we rise soon enough, and far enough in our pursuit of the development of those human powers, to meet the challenge.

Mankind's most deadly adversary can be our own, ostensibly unique species' failure to grasp the conceptions which the intersection of such as Planck, Einstein, and Köhler have represented in the intersection of their initiatives.

There is a principle which must be seriously considered, in all of this, if the higher objective of the existence of mankind is to become attainable for our species.<sup>1</sup>

Mankind's essential enemy is that which mankind has so far resisted becoming. That is the true principle of physical science's practice, and is the force of passion, called creativity, which drives the human being, from the inside, into great achievements of science and



NASA, ESA, Hubble Heritage Team (STScI/AURA)

*"The Solar System itself, is not an inevitable end of all for mankind." Shown: The Hubble telescope observes a cluster within a star-forming region in the Small Magellanic Cloud.*

Classical artistic composition. These two aspects of the human mind's powers, otherwise known as the force of irony, are the essential expression of the creative powers and true destiny of our human species. The musicians and scientists Planck and Einstein, express this quality in a manner which I find essentially delicious.

Consider the matter of the relevance, the appropriateness of what I have presented here.

### ***The Limits of Mathematics***

Mathematics, as presented in its presently conventional setting of practice, is a gritty prospect: it is the grinding of dirt without appropriate passion. True human creativity, and the passionate regard for the meaning of lives of persons, are most intimately related experiences, the experience which separates love of mankind from the dirty business of mere deduction. Or, to state the matter in plainer terms, the difference is locatable in a certain quality of passion, a quality of passion which separates that of swine from human fixation on that power of mankind which is known to us as a reflection of metaphor. Rather than relying on counting

1. I have treated this subject, in some preliminary degree, in a location published under the topic of physical-scientific implications of certain work of Wilhelm Furtwängler, in earlier locations: EIR, June 15, 2012 features four articles on the topic; additionally, the June 17, June 22, and July 13, 2012 issues have articles by LaRouche on this topic.

of things, we must rely, to be truly human, on that specific quality of human passion, recognized in the expression of metaphor, which transforms the substantive meaning of anything through the powers of impassioned metaphor, rather than the counting of percussively engaged, arithmetic grinding of pieces of dirt. I mean, the sense of awesome grandeur which should have enveloped us as with the great poet's, musician's, and true scientist's use of those powers of the imagination, powers which are the only true expression of creativity as such: as Max Planck and Wolfgang Köhler came to recognize the common unity of their respective professions in this matter.

The human mind as such, is an essential power in itself, a power which inhabits us, and should be permitted to lift us above all other types of species presently known to us.

It is that specific quality of devotion, when shared as a matter of collaboration on behalf of the nations and such of which human society is composed, which draws us, if we permit this, into a devotion to the changes in the world which we are properly obliged to serve, which lends to the appropriately sentient person, the power to rise to those devotions which are to higher achievements by mankind, which supplies the passion through which man and woman must rule themselves, and provide for the appropriate self-government of our species.

It is the sense of beauty specific to the great poets, musicians, and dramatists, which supplies truly creative insight to the scientists and poets, and, also, the governments which mankind deserves. It is that quality of impassioned commitment to the future of each nation, and of mankind as a whole, which must be summoned with the power of a voice, of a trumpet which calls mankind to its true destiny, as by nations, and among nations. The essential function which systems of government must impose upon themselves, is calling the poor sheep of our world to the true profession of being human, and, in that sense, also partaking of what we might truly regard as "humanity."

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### III. The True Meaning of Physical Science

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That presently rising degree of mortal dangers to human existence, contains an implied warning, concerning the customary notions of "sense-certainty" which mankind has enjoyed under the protection of the

system of life on Earth, which is protected "as if from above." This has confronted our species with the need to pay attention to the matter of the limits of that protection provided by the complex within which life on Earth has been shielded heretofore. It happens that this confrontation with the surroundings of the inhabited elements of our planet, has placed question-marks on the presumed authority of what we are accustomed to consider as "sense-perception as such." This also pertains to what Bernhard Riemann had emphasized in the concluding section of his 1854 habilitation dissertation, as "the very large" and "very small."

How far can we dare go within the limits of what we might confidently consider reason, in a continued reliance on the employment of an extended notion of conventional sense-perception as a defining parameter of "what is out there?" These questions had confronted us more clearly since the relevant evidence presented to us by the turn into the Twentieth Century under the considerations of such as Max Planck, Albert Einstein, and (once more) the conception of the human mind associated, later, with the work of Wolfgang Köhler. How shall we free our beliefs from religious devotion to the worship of the theory of dirt? Might we not suspect the Creator to be displeased with such childishness among us?

There are several, respectively valid, and practical approaches to treating this troublesome bit of ambiguity. The significance of such questions as this, for our purposes here, is that mankind, whether directly, or by aid of his instruments, now depends for our species' continued existence, on the capabilities for defense of the continued existence of our species, an undertaking which plunges us into consideration of matters which the living human species has never truly experienced before. We have entered a form of practice in a domain beyond anything which we might have assumed before the disturbing quality of the actually valid discoveries of Planck and Einstein, and, slightly later, the rarely actually understood discovery of a principle of the human mind by Wolfgang Köhler.

To what degree can the conventional evidence of life, as derived from notions of sense-perception, be considered sufficient for investigation of the meaning of human mental life in the very small, for the exploration of life expressed in the Solar or Galactic "all"? Were there objection to that consideration, consider the compelling evidence on the subject of sense-perception in the physical principles commonly located in the work of Johann Sebastian Bach, Arthur Nikisch, and



Wilhelm Furtwängler. This set of questions could not be competently set aside so readily as many might presume.

The specific distinction of man from other species of behavior is located in precisely that locale of physical evidence known as actual economic forecasting of the occurrence of a *future state of* the human experience, a state which can not, on principle, be adduced from statistical projections: my particular expertise. A close examination of the work of Johann Sebastian Bach suffices to demonstrate the principle which I have just referenced here. Consider what I have just stated very carefully; it has extremely important practical implications for all mankind today.

### ***The Needed Explanations***

The principal crises of mankind are associated with the widespread confidence in what is customarily identified as “sense-certainty.”

The problem is, essentially, that the sense of a future depends upon recognizing the authority of what has not yet been experienced. The imperative quality of this prescription confronts us when we recognize the intrinsic absurdity of the belief in what is conventionally understood as the errant compulsion to presume that reality is to be found in “mere sense-certainty” as such.

To escape that pathway of customary error, it were essential to shift belief to something beyond sense-perception as such: what must be sensed to be known, is not real, because it excludes the actual experience of the future, rather than the record of sense-perceptions of what are called “things.” It is on that account, most notably, that the principle of Classical musical composition obtains its means of access to the reality which exists only in the anticipation of the future, as in all great Classical musical compositions since Johann Sebastian Bach.

That is not a musical matter as such; it is that experience of the future in progress which is the expression of the actual principle of truth which is otherwise known as metaphor.

In the immediately preceding chapter of this present argument, I have emphasized that the actual location of the power of human reason is located independently of mathematical calculation as such. The power is located



EIRNS/Fletcher James

*“The problem is, essentially, that the sense of a future depends upon recognizing the authority of what has not yet been experienced.” Reality exists beyond sense-perception as such, as in Classical musical composition. Shown: a detail from the Cantoria relief sculptures, by Luca della Robbia, Santa Maria del Fiore (1431-38).*

in the specific quality of passion expressed otherwise by the greatest poets and composers of music, or, to say the same thing in an other way, the passion which is human creativity in motion. In other works, in ontological change as such, in the powers of metaphor.

Fools are taken in by calculations. Those who have discovered the secret of human powers of reason as such, are not fooled; but, such persons are, unfortunately, far more rare, as in trans-Atlantic nations, than had been the case in a rather long time. It is not the passion for consuming, grabbing, or simply rejecting “objects,” but rather human creative insight into what were otherwise the unknown, but knowable realities of the settings we occupy, which must capture our attention, and corresponding intention.

In short, trans-Atlantic culture is degenerated because this was not merely permitted, but also encouraged to become a degeneration of current trans-Atlantic civilization (in particular) in such a fashion.

## THE CREDIT SYSTEM VS. SPECULATION

# Nicholas Biddle and the 2nd Bank of the United States

by Michael Kirsch

*July 4—Many in the United States Congress want to know how to reorganize the U.S. economy, but are stuck with two fundamental questions: how to regulate speculation constitutionally, and how to generate wealth and the means of funding a nationwide recovery. There is an alternative to Federal Reserve and Eurozone bail-outs and austerity: a re-establishment of a U.S. Credit System, in which the first step is a re-instatement of the Glass-Steagall law, as presented in Rep. Marcy Kaptur's H.R. 1489.*

*For the purpose of re-implementing a U.S. Credit System in 2012, this article reviews the full history of how the Second Bank of the United States created the greatest period of economic growth in our history up to that time. This research was a follow-up to an investigation of how NAWAPA XXI (the updated North American Water and Power Alliance) would relate to the Hamiltonian system of public credit, the results of which were published in March 2012.<sup>1</sup>*

*Anton Chaitkin<sup>2</sup> recently told the story of the unification of the nationalist movement which led to, and created, the industrialization of the United States. In the present article, the subject is the workings of the*

*credit system, how it was directed and the conception which made it possible. We present an important piece of the historical development of a functioning Credit System, in its most outstanding form.*

*Such in-depth historical investigation is necessary knowledge for those determined to fix the current global mess, and to design a plan that can fund a recovery for the U.S. and other nations.*

*Our story begins near the beginning of the War of 1812, when the first Bank of the United States met its demise.*

### Preface

In 1810-11, the political parties were split on the issue of re-chartering the Bank of the United States, whose charter was to set to expire in 1811. The vote to re-charter lost by the tie-breaking vote of the President of the Senate, cast against President Madison's wishes, and by a single vote in the House of Representatives.

On Jan. 3, 1811, on the eve of the decision to dissolve the Bank of the United States, the 24-year-old Nicholas Biddle, serving as a state representative at Lancaster, Pa., who had been promoting canal building and public education in the state unsuccessfully, rose to challenge a resolution to dissolve the Bank. Surprising the legislators, he spoke on the basis of hours of prepared study, reviewing the history of the Bank, and challenging party rhetoric that it was unconstitutional

1. See the LaRouchePAC NAWAPA XXI Special Report at [www.larouchepac.com/nawapaxxi](http://www.larouchepac.com/nawapaxxi) or [http://larouchepac.com/files/20120403-nawapaxxi-forweb\\_0.pdf](http://larouchepac.com/files/20120403-nawapaxxi-forweb_0.pdf)

2. Anton Chaitkin, "The American Industrial Revolution That Andrew Jackson Sought To Destroy," *EIR*, June 22, 2012.

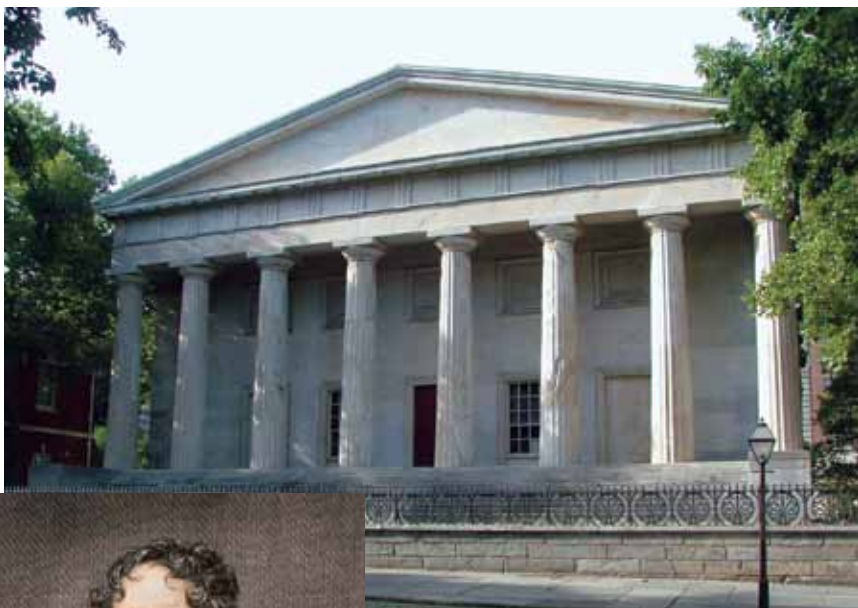


and served the monied aristocracy. He outlined the system of public credit which the Bank had made possible, and warned of the effects which would ensue, following its demise:

To my mind no principle of national economy is clearer, than that the most natural way of protecting the poorer classes of a society is by a [national] bank: an institution ...which enables the farmer to reserve his crops for a better market, instead of sacrificing them for his immediate wants; and by loans, at a moderate rate of interest, reliev[ing] every class of society from the pressure of usury. As to a monied aristocracy, is it not obvious that the funds of a bank are of all other kinds of property the least calculated to promote the influence which is feared? An extensive proprietor of land may oppress his tenantry; the holder of mortgages may influence and control a whole neighborhood; but a large stockholder in a bank sees interposed between him and his debtors an association of individuals whose private feelings are merged in the passion of pecuniary gain.

Biddle addressed the fallacious argument of usurpation by foreign monied individuals who owned stock in the Bank, but were forbidden from partaking in its direction:

[The Bank's] shares rise in value till foreigners, desirous of placing their funds beyond the insecurity of Europe, send over their money and purchase its stock. In the first place, our citizens gain the additional price, and this foreign money is lent by the bank to individuals, who, after employing it in the improvement of the soil, the establishment of manufactures, and in the advancement of



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Courtesy of the American Philosophical Society, Philadelphia

*Nicholas Biddle became president of the Second Bank of the United States in 1823, vowing to create an actual national currency and to achieve "a more enlarged development of its resources and a wider extension of its sphere of usefulness." The Bank, shown here, is in Philadelphia, Pa.*

every branch of the national industry, return it to the bank, who send to foreigners the interest; that is, the surplus which our citizens have earned with it, above their own income from its employment.

Then Biddle warned of the effects of dissolving the Bank:

The resources of the union are almost wholly drawn from commerce. As the treasury must be supplied from the collection of duties, it must depend on the ability of the merchant to pay the duties by means of the loans from the bank and in notes of the bank. ... On a sudden you declare that there shall be no longer any loans ... you annihilate the credits on which the merchant had relied for the fulfillment of his contracts with government—and the facilities which enabled him to discharge them without specie.

This deficiency of revenue would only be secondary when compared with the overthrow of punctuality and credit, which will break up

the foundations of mercantile confidence, and spread a wide and universal calamity throughout the country.... The demand for specie will place the poorer classes at the mercy of the rich, the great money lenders will issue abroad to prey upon their fellow citizens. Yes, sir, in the sweeping ruin which will overwhelm humble and useful industry in the general submersion of small traders, the only beings who will be seen floating on the wreck are these very “monied aristocrats,” whom the resolutions denounce with such indignation....

We are now preparing our non-intercourse for England which may drive us into a war with that country. With the dreary prospect of such a misfortune ... when the government needs all its strength to meet such dangers—is this a time to disorder its finances?

Economist Mathew Carey—one of the closest co-thinkers of Benjamin Franklin in the United States—had likewise attempted to stave off the calamity, writing in the newspapers, and in eight letters in December 1810, to his Representative in Philadelphia, which he circulated the weeks before the final vote on Jan. 24, 1811, rebutting the charges that had been thrown up against the Bank of United States, reviewing President Jefferson’s 1804 extension of the Bank’s power, and warning of the effects that failure to renew the Bank’s charter would have:

The productions of the earth will look in vain for a profitable market in our seaport towns. They will remain on hands unsold, or, if they be sold, the capitalists will be able at pleasure to regulate the prices—for there will be little or no competition.

Many people believe that the struggle for the destruction of the Bank of the United States, is a



Library of Congress

*This caricature of President Andrew Jackson was probably issued in the Fall of 1833 in response to his order to remove Federal deposits from the Bank of the United States (without Congressional approval). The Crash of 1837 was one result of his move.*

war of the middle and poorer classes of society, against the rich; and that if it should be successful, the interests of the former will be promoted at the expense of the latter. Fatal error! Should the enemies of the Bank triumph, the interests of the middle and poorer classes will be laid prostrate for the advantage of the overgrown capitalists, who will be able to possess themselves of the property of the distressed, at thirty or forty per cent below its value.<sup>3</sup>

This article will demonstrate the nature of the U.S. Credit System as developed to its fullest expression by Biddle, John Quincy Adams, and other Americans devoted to the full development of the power of the United States. Spanning a period from 1811 to 1832, we will look at the failure to re-charter the first Bank

of the United States, Nicholas Biddle’s intervention to save the Second Bank, the re-establishment of Alexander Hamilton’s intention for the functionality of the Bank as a means of carrying out the powers of Congress, the full development of that Credit System in the internal development of the country, and Biddle’s action to protect the Credit System from speculation internally and from abroad.

The greatest crime ever committed within the United States was the destruction of the Credit System in 1832-36 by Andrew Jackson, as a result of which farmers, laborers, manufacturers, and the expansion of the economy were crushed, through the tyrannical usurpation of legislative power. The greatest lie ever told in the United States was that the Bank of the United States, under the direction of Nicholas Biddle (from 1822 to 1836), was destructive to the liberties and safety of the Republic.

In 2012, after the world’s productive economy has likewise been ravaged for many years, those who pur-

3. Mathew Carey, “Letters to Dr. Adam Seybert,” Dec. 5-17, 1810, published Jan. 8, 1811.

port to be the saviors of the people turn to Jackson and his destruction of the Bank as their model, blind to the lies which made up that sorry destruction and intentional shrinkage of the economy, and its continued effects. The deadly error is not that people have been duped into believing a lie, but that it represents a failure to understand the great Credit System of Biddle and the Bank of the United States, a failure to understand the powers of Congress which made this system possible, and a failure to bring about its re-establishment today, for the sake of a unified national credit structure for sovereign nations.

## Introduction

The great period of bankruptcy during the Revolutionary War, and the depreciated bills of credit of the states and Continental Congress which flooded the country, led Robert Morris, Alexander Hamilton, James Wilson, Gouverneur Morris, and other Founders to a shared commitment. For a union of states to withstand the financial warfare of its enemies, and create a national system of paper credit, it was necessary to channel the resources of the nation as a whole behind the currency, using the powers vested in Congress; those powers could most successfully be executed by means of a Bank of the United States.

By funding the national debt with import duties and domestic taxes and by other powers of Congress,<sup>4</sup> the debt would become the basis for the issue of banknotes which would circulate upon the credit of those funded debts, making up most of the Bank's capital stock. Various debt certificates issued during the war were reissued as a representation of the new power of government in action, and those who held new debt certificates received interest payments in banknotes, increasing the currency,

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4. "The payment of debts may well be expensive, but it is infinitely more expensive to withhold the payment. The former is an expense of money, when money may be commanded to defray it; but the latter involves the destruction of that source from whence money can be derived when all other sources fail. That source, abundant, nay, almost inexhaustible, is public credit. The country in which it may with greatest ease be established and preserved is America, and America is the country which stands most in need of it, whether we consider her moral or political situation; and whether we advert to her husbandry, commerce, or manufactures.... A due provision for the public debts would at once convert these debts into a real medium of commerce. The possessors of certificates would then become the possessors of money." Robert Morris's outgoing message as financier of the Continental Congress, 1783, cited in Ellis Paxson Oberholtzer, *Robert Morris: Patriot and Financier* (New York: Macmillan: 1903), Chapter 5.

while the branches of the Banks accepted the new debt certificates as deposits and would lend banknotes on their credit, as well as loans on the credit of expected manufacturing and industry. The provision for funding the debt of the United States threw into circulation an immense amount of capital, which gave life and activity to business.<sup>5</sup> Or, as Alexander Hamilton said in 1791, "In a sound and settled state of the public funds, a man possessed of a sum in them can embrace any scheme of business, which offers, with as much confidence as if he were possessed of an equal sum in coin."

Congress made the notes of the Bank's legal tender and "receivable in all payments to the United States." The Congress's power "to coin money and regulate the value thereof" was carried out by the banknotes having a value set by the amount of specie in the Bank, and they could redeem the notes for specie if desired, "payable on demand, in gold and silver coin." As the system was designed to prevent the necessity for this redemption, a circulating currency was created of a magnitude proportional to the active capital of the country, the manufactures, agriculture, etc., without having to trade in most of that capital for specie, with which to exchange goods. Precious metals were themselves objects of trade and the basis for foreign commerce.

Had all taxes been demanded in gold and silver, it would have been highly oppressive in 1790, not only because there were no mines or mint in the United States, but because such a law would demand *that much of the active capital of the nation* be traded for the coin to make the payments, draining the capability to conduct foreign commerce, as well as creating a non-dependable source of revenue for the government.

Likewise, in the settlements of new land, it required years before the land was developed and a surplus of production would be obtained for the market, and when it was finally generated, it was exchanged for the continued necessities of development. An even longer time would be necessary for a whole community to part with its resources for the purposes of a circulating medium of coin, and had settlers been forced to buy a metallic currency by selling their surplus, all progress would have ground to a halt.

In general, between 1790 and 1811, the Bank of the United States and state banks would keep one-third of

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5. The establishment of the powers of Congress and first Bank of the United States is developed in detail on pages 57-67 of the NAWAPA XXI *Special Report*, *op. cit.*



the whole currency in specie in their vaults to meet any settlements required, meaning a saving of two thirds of the capital required to create a currency. This saving was absorbed in the purchase of land, new dwellings, and new manufactures. Instead of needing gold for purchases of goods, the nation was able to depend on the government's system of national banking, with loans from branches of the Bank, and trading with banknotes of unified value. The amount of paper exceeded the metallic capital of the country, but was nowhere near the size of the commercial and manufacturing capital of the nation. With the growth of confidence in the government, men who possessed capital wanted to invest in economic activity, reducing the tendency for it to sit idle in the form of gold and silver. The substitution of banknotes for metal decreased the capital required to be used as a currency.

Biddle explained it this way, in a speech on Jan. 3, 1811:

As long as the paper possess the confidence of the people and as long as the even balance of trade supplies us with enough of the precious metals for ordinary demands, every object of interior commerce is perfectly accomplished. But the delicate structure of credit must be gently touched. If you require that the gold and silver, whose place the paper occupies, should suddenly be produced, when they have been sent abroad for foreign trade; if at the same time you force from circulation the specie which had hitherto been ready to obey and support the notes, you derange the whole system. The metals cannot be brought forward, the paper becomes suspected, and the holders of it clamorously demand payment from the banks: they cannot pay, because not suspecting so



EIRNS/Stuart Lewis

*The first Bank of the United States was created by Treasury Secretary Alexander Hamilton. "Public Credit ... is among the principal engines of useful enterprise and internal improvement," he wrote. "... it is little less useful than gold or silver, in agriculture, in commerce, in the manufacturing and mechanic arts." The statue is in Paterson, N.J.*

sudden a demand, they had placed their funds in a less convertible shape, and reserved only what was required by the accustomed course of trade. Even if they can pay, they can issue no more notes; they can no longer lend; and thus the whole trading community is distressed: *not because they are without substantial wealth, but because it cannot be turned into money, the standard of wealth: not because they are unable to pay ultimately, but because the loss of their accustomed credits forces them to pay suddenly*<sup>6</sup> [emphasis added].

In addition to the large capital stock, other deposits were added from those who had idle capital, which could now yield them a corresponding interest, as it was loaned out to a wide array of industrious classes. Also, instead of sitting idle in the Treasury, the collected taxes were paid into the regional branches of the Bank, and could be utilized at all times in the growth of the economy until time of appropriation.

This function was described by Alexander Hamilton in his *Report on Public Credit* of 1795:

Public Credit ... is among the principal engines of useful enterprise and internal improvement. As a substitute for capital, it is little less useful than gold or silver, in agriculture, in commerce, in the manufacturing and mechanic arts.... It is a matter of daily experience in the most familiar pursuits. One man wishes to take up and cultivate a piece of land; he purchases upon credit, and, in time, pays the purchase money out of the

6. Nicholas Biddle, speech on the re-charter, Jan. 3, 1811, Lancaster, Pa.

produce of the soil improved by his labor. Another sets up in trade; in the credit founded upon a fair character, he seeks, and often finds, the means of becoming, at length, a wealthy merchant. A third commences business as manufacturer or mechanic, with skill, but without money. It is by credit that he is enabled to procure the tools, the materials, and even the subsistence of which he stands in need, until his industry has supplied him with capital; and, even then, he derives, from an established and increased credit, the means of extending his undertakings.<sup>7</sup>

The uniform currency of banknotes was to be accepted for all taxes, domestic and foreign, and created a dependable means of payment, since the Bank could make loans to assist individuals and companies. It especially related to the power of laying and collecting taxes, facilitating the payment of duties to the government on behalf of the customs house before the merchant was able to pay the full amount, relieving the government of the risk and responsibility of collection, and the merchant of the ruinous expedient of forced sales.

The further development of this system of public credit will be described in the third section of this paper.

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## 1. Speculators Take Over

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Unfortunately, the vast majority of Congressmen who were ignorant of the relation of the Bank to their districts were, as Mathew Carey put it, “liable to be bewildered and led astray—to be instrumental in dashing the bark of public credit upon rocks and quicksands—and producing an awful scene of destruction.” They rushed headlong into the trap set for them, and the effects of which Biddle, Carey, and others had warned, were as bad as predicted.

The removal of a massive amount of credit was replaced as numerous state banks loaned more than prudence allowed, and, stoked by speculation, a situation ripened whereby a nation abounding in patriotism during the war, and full of resources, had a government that was bankrupt for the want of an institution that would facilitate government loans and other Treasury

operations.

By attempting to fill the enormous vacuum created by the demise of the Bank, and profiting from the lack of regulation, the state banks augmented the circulation of paper by more than half during and after the war with Great Britain, which diminished the value of the circulation by more than one third. While many banks attempted to curtail loans to make sure that specie could be provided for those seeking to redeem their notes, in the Summer of 1814, all the banks south and west of New England finally suspended the payment of specie as the only mode of keeping their circulation of notes at an amount proportional to the demands of their customers.

The failure of numerous banks which had puffed up fictitious and factitious credit without any substantial basis to redeem their bills, was later commented on by a merchant in Charleston: “If we look back to what took place ... we shall see the grossest impositions committed by banks, commencing with a few thousand dollars in specie ... and after getting their bills into circulation, blowing up, and leaving the unsuspecting planter and farmer victims of a fraud, by which they were deprived of the hard earnings of years of honest industry.”

In addition to the general depreciation of the currency due to an over-issuance of state bank paper, without a unified national currency of Bank of the United States notes, there was also a *relative* depreciation of the various currencies of the states ranging from 5 to 25%.

A merchant engaged in interstate commerce was compelled to resort to a money broker to exchange his depreciated currency for available funds in another currency, and since state banknotes were held in less confidence outside that state or region, the holder of Western and Southern notes was compelled to allow a discount<sup>8</sup> when he purchased goods in Eastern markets. The broker took into consideration the solvency of the bank, the distance, and the time that would elapse before he could turn this depreciated paper into available funds, a discount augmented when the capital was small, making it less worthwhile to transmit for redemption, making it even more of a tax on those just beginning their ven-

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7. Alexander Hamilton, *Report on a Plan for the Further Support of Public Credit*, 1795.

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8. Receiving less credit than the full value for a note, or receiving less in advance for the value of a bill of exchange. Discounting by banks is similar to a loan, except instead of the bank giving the full amount asked for and charging interest, the bank will give a lesser amount, and expect the full amount back. Simply said, getting a 20% discount from the bank means borrowing 80, and paying back 100.

tures. By 1816, the depreciated currency led merchants to pay a 15% increase for a bill of exchange<sup>9</sup> drawn on a debtor in New York, due to the risk of loss on Western money. The merchants engaging in a bill of exchange with the broker would then pass on this expense to the farmers. In other words, the various brokers taking advantage of the situation were taxing all trade at a cost 10-20% higher than it had been through the Bank of the United States.

The state currencies imposed extravagant premiums upon the Treasury for the mere act of transferring revenues to the government from the point of collection, thereby reducing government revenues overall. In the Fall of 1814, the notes of the Baltimore banks were usually depreciated by 20%, those of New York by 10%, while those of Boston were at par. Since state banknotes were received by the revenue officers at those places in payment of duties, the importer at Baltimore paid one fifth, and at New York one tenth less than the importer at Boston. These varying depreciations at the points of importation drew imports to the cities where the depreciation was the greatest and diverted them from elsewhere, encouraging each state to degrade its own currency to attract foreign commerce. While the government was consequently receiving less than it should for duties, it was also apparent to all that this situation made it impossible to discharge the power of Congress, which states that all taxes collected “shall be uniform throughout the United States,” and that “No preference shall be given by any regulation of commerce, or *revenue*, to the ports of one state over those of another,” as this would be a discrimination in favor of the lower value, proportioned to the depreciation of the local currency which is 20% below value of another. Notwithstanding this clear violation of the Constitution, this inequality continued for two years.

Some banks reaped the reward of lending under the conditions of a general depreciation of the currency, and then getting paid back later with a currency nearly twice as valuable, taking nearly twice the amount of

property from people for the debts that had been originally contracted. Also, intentional, abrupt curtailments of loans would reduce prices, obliging the debtors to sacrifice their wealth at low prices to the speculators. Reviewing this period in 1830, Congressman George McDuffie wrote:

When banks have the power of suspending specie payments, and of arbitrarily contracting and expanding their issues, without any general control ... [i]n such a state of things, every man in the community holds his property at the mercy of money-making corporations which have a decided interest to abuse their power.... By a course of liberal discounts and excessive issues for a few years, followed by a sudden calling in of their debts, and contraction of their issues, they would have the power of transferring the property of their debtors to themselves, almost without limit.<sup>10</sup>

Some of these banks had allowed their money, which was earlier stock of the national Bank, to be lent productively, but now they speculated upon the distresses of the community, having nothing better to do with their large surpluses of money.

Without the agency of a bank established by Federal government authority, the Congress had no control whatsoever over that which fills up the channels of pecuniary circulation. In the absence of a National Bank, the state banks become in effect the regulators of the public currency; in such a condition, it was vain for Congress to regulate the value of coin, when the circulating paper currency of local banks had no relation to this value. In essence, the state banking corporations had usurped this power from Congress, with the strongest motives for abusing it for profits.

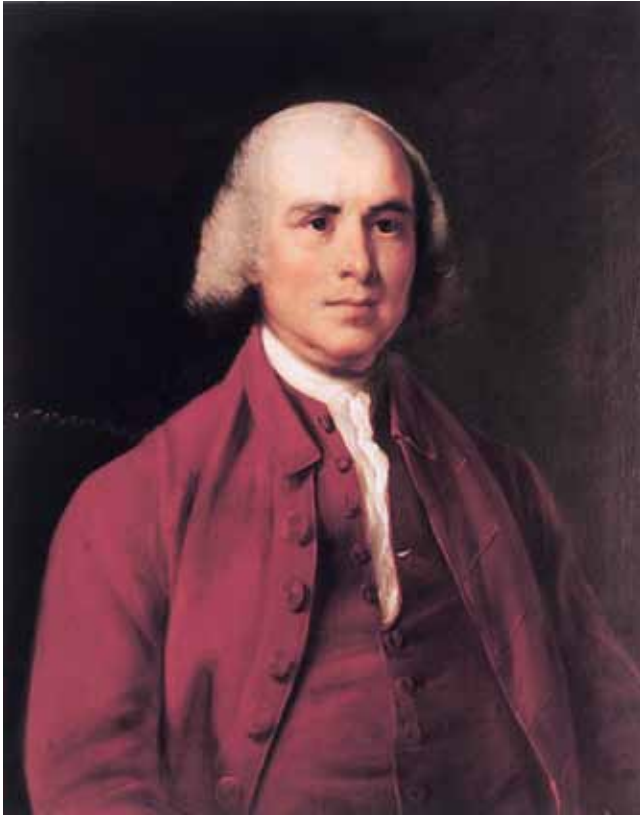
The state legislatures were never designed to be the exclusive suppliers of the national currency; long before any state had a bank, there was a National Bank, whose operation and purpose were intimately tied to the creation of the Constitution.<sup>11</sup> It was the Founders' intention to vest in the Federal government the exclusive control over the currency, by prohibiting the states

9. A bill of exchange can involve an innumerable number of parties, but usually three or four. For example, Merchant A has a debt from Merchant C, but wants to buy goods from Merchant B, and presently does not have the funds on hand. Merchant A therefore purchases them on the credit of Merchant C, who owes him an amount necessary to cover the purchase, by means of a bill “drawn on Merchant C”—i.e., to be eventually paid by Merchant C. Merchant B can now use this bill of exchange as payment to another trader, who can then have it discounted by a bank or broker, receiving cash to pay a farmer or manufacturer for goods he wishes to buy.

10. House of Representatives, Committee of Ways and Means, George McDuffie, April 13, 1830.

11. See *NAWAPA XXI Special Report*, Section III. How NAWAPA XXI Will Restore the System of Public Credit, *op. cit.*





*James Madison had opposed the shutdown of the first Bank of the United States in 1811. As President, in 1816, he signed into law a new charter, establishing the second Bank of the United States.*

from coining money and emitting bills of credit. The constitutional power over the legal currency vested in Congress was one of its very highest powers, and its exercise of this power was one of the strongest bonds of the Union of the States. This power must be exercised by Congress, or one of its powers affecting all the daily operations of society remains dormant.

### **A Charter Doesn't Make the Bank**

Consequent to this disastrous experience, President James Madison, who had been in favor of re-charter in 1811, after reviewing various proposals for a new bank, accepted a design for a charter almost identical to Hamilton's original one and signed it into law in 1816, with overwhelming support from all sides.<sup>12</sup>

12. The reader is encouraged to read the charter for the second Bank of the United States, delivered to President Madison by Secretary of Treasury James Dallas in 1816. It is almost identical to Hamilton's charter of the first Bank, which is reviewed in detail in the reference cited in footnote 11, except that the capital stock of the bank available for subscription by citizens in the U.S. and abroad was \$35 million rather than \$10

Madison delivered the following message on Dec. 16, 1816:

For the interests of the community at large, as well as for the purposes of the Treasury, it is essential that the nation should possess a currency of equal value, credit, and use wherever it may circulate. The Constitution has entrusted Congress exclusively with the power of creating and regulating a currency of that description, and the measures which were taken during the last session in execution of the power give every promise of success. The Bank of the United States has been organized under auspices the most favorable, and can not fail to be an important auxiliary to those measures.

The patriotism that continued in the wake of the War of 1812 led to great recognition of the need for internal improvements and domestic manufactures, led by West Point's Army engineers. The Erie Canal was begun in 1817, and designs and plans for canals in Virginia, North Carolina, and Georgia, were being put forward by the government, while industries of all kinds started up.<sup>13</sup> However, the resumption of a national currency and Credit System able to facilitate this plan was not guaranteed by the mere existence of the Second Bank of the United States. The bank faced an army of unregulated state banks, and the government had taken out a loan for the war at 20% interest, which it was to pay back in a currency of twice the value, a situation requiring a director with the full national interest in mind and with the resolution of an Alexander Hamilton to handle the fragile situation. Instead of such a bank president, there now ensued two administrations of the bank that

million. Shares were subscribed for three-fourths part public debt and one-fourth part specie. While initially the subscribers were mainly wealthy individuals, once the stock price equalized, the range of stockholders became more and more representative of the general population, as purchasing shares in the bank became the most secure and efficient place to invest one's savings. In 1830, the main stockholders were: foreigners owned 7 million; the U.S. government owned 7 million; the middle class owned 7 million; super-wealthy individuals owned 3 million; and widow and orphan charities owned 8 million. The dividends from the bank's stock were the sole income for many widows and the needy in general, and a key source of income for many in the middle class. Investing in the Bank of the United States was very much like the way investment of one's earnings in the Social Security Fund yields interest, and provides for members of society a secure source of income in later years.

13. Chaitkin, *op. cit.*, footnote 2.

did not fulfill its mission.<sup>14</sup>

William Jones, the first president, was unqualified for the post and chosen for political reasons. The policy of forcing banks to resume specie payments brought pressure on their borrowers, causing great protests in the interior of the country. Also, speculators were not absent in the opposition to the Bank. Jones succumbed to these pressures, and to silence the protests, he supplanted the state bank bubble with loans from the regional branches, without limit or relation to the capital stock of the national bank. The notes issued from the Western branches were accepted in the East, and therefore capital and resources of the bank were being transferred from the East, where valid debts were being paid, to the interior, where speculators in land and stocks were taking advantage of loose credit. Meanwhile, Jones himself was involved in fraudulent banking practices in the East.

When other directors of the bank finally began to exert its influence in July 1818, its forced curtailment of loans put pressure on merchants and speculators and state banks, and led to mass bankruptcy. The bank was overextended, drained of much of its specie. Jones was thrown out for mismanagement and fraud, and in January 1819, President Monroe appointed Langdon Cheves as the new president of the bank, and Nicholas Biddle as one of the government directors. Biddle had refused to serve as a director under Jones' administration.

Cheves ordered the interior branches to cease issuing notes, and to forward a large amount of their specie and two thirds of their government deposits back East, while demanding complete settlement with state banks. As stated, a chief cause of the overextension was issuance of currency in the interior states and the eventual demand for specie redemption of the notes at branches in the East for duty payments. He therefore suspended the part of the Bank charter that said that all the notes given out by the bank and its branches would be receivable at any branch—i.e., it would be a national currency. John Quincy Adams, as Secretary of State, described the state of affairs in 1819-20, in his memoirs, from his discussions with Treasury Secretary William Crawford and President Monroe. On April 5, 1819, he

wrote, "The bank is so drained of its specie that it is hardly conceivable that they can go to the month of June without stopping payment. The measure which Cheves now represents as indispensable is the *refusal to receive in payments for public account the bills of the several branches of the bank at any other branch than that from which they issued.*"

Cheves' action burst all of the speculative lending in the country which Jones had allowed. Beginning in the Summer of 1818 and continuing through 1819, all real estate and products of labor collapsed in value. Multitudes of farmers and manufacturers who had established themselves from the credit supplied by the first national bank, and had invested their money in the state banks which had taken its place, now were left penniless, when these banks were finally made to adhere to the necessary regulation. John Quincy Adams continued to discuss the situation with his fellow Cabinet members, in May 1819:

I had also some conversation with [Treasury Secretary] Crawford on the present situation and prospects of the country, which are alarming. The banking bubbles are breaking. The staple productions of the soil, constituting our principal articles of export, are falling to half and less than half the prices which they have lately borne, the merchants are crumbling to ruin, the manufactures perishing, agriculture stagnating, and distress universal in every part of the country....

The house of Smith and Buchanan, which has been these thirty years one of the greatest commercial establishments in the United States, broke last week with a crash which staggered the whole city of Baltimore and will extend no one knows how far.

The banks are breaking all over the country; some in a sneaking and some in an impudent manner; some with sophisticating evasions and others with the front of highwaymen. Our greatest real evil is the question between debtor and creditor, into which the banks have plunged us deeper than would have been possible without them.

Unfortunately, while Cheves restored the soundness of the Bank, he greatly over-corrected, and numerous debtors who were legitimate businessman and purchasers of land were stuck with the same fate as the speculators. Shoring up the Eastern banks with funds from the

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14. It is crucial to look closely at this period of bad management, because it was later used fraudulently by the Andrew Jackson operation to attack the bank, long after Biddle had entirely corrected these errors. See Report of Mr. [John Quincy] Adams, May 14, 1832, Committee Investigation of the Bank of the United States, 22nd Congress, 1st session.

interior, and canceling loans and purchases of bills of exchange, led to a reduction of business activity and forced the state banks, which were already being pressed for payment, to do the same.

Consequently, all banknotes were kept in the vaults, and bills of exchange were almost unsalable. Trade and commerce were almost wholly suspended; confidence among people was greatly impaired; the interest of money privately borrowed was extravagantly high; few bought anything except what they could immediately sell; no reliance was placed on the collection of debts; and manufacturers were daily discharging their workmen, unable to raise money for their wages.

Mathew Carey wrote to the directors of the bank on June 28, 1819, calling on them to reverse the policy of

austerity, outlining this state of affairs and its consequences. He concluded by stating, “The system pursued by your immediate predecessors, invited applications for discounts, in consequence of which immense sums were borrowed, which were invested in trade, commerce, houses, and lands. Yours is the antipode of theirs. But surely, in order to cure a plethora, arising from repletion, it cannot be necessary to starve the community to death.” He signed his letter “A Friend To Public Credit.”

Despite this, and similar encouragement from Biddle, Cheves firmly believed that the only way to resume issuance of notes at all branches was to hold more specie than notes issued, abandoning the idea of supplying a national currency; he even pushed for Congressional alteration of the Bank’s charter from its

## Biddle’s Ally Mathew Carey: ‘The Harmony of Interests’

Mathew Carey was a protégé of Benjamin Franklin, who emigrated to America from Ireland, under British threat because of his republican writings. In 1814, toward the end of the War of 1812, Carey published *The Olive Branch*, an appeal to patriots in both the Federalist and Democratic parties to rally to the development of the nation, and to crush the British-allied Boston Brahmins’ efforts to recolonize the country for the British Empire.

The book’s impact was extraordinary. Sold out soon after it hit the bookstores, by 1818, it had gone through ten editions, and became the bestselling book, other than the Bible, for decades. Federalists and Democrats used it to work together to save the country from ruin. Carey exposed not only

the intent of the British invaders, but their American collaborators, such as the Lowells, the Cabots, the Pickerings, and the Peabodys.

*The Olive Branch* consolidated the principle of “the harmony of interests” between labor and capital,

which was the focus of Carey’s American System economic theory, itself based on the economics of Alexander Hamilton. He called for a political alliance of farmers, laborers, industrialists, and merchants, with their representatives in government, saying that by joining forces they could “raise profits and wages at the same time,” through development of technology and the productivity of labor.

Carey’s son, Henry Carey, wrote many books, including *Harmony of Interests*, and became President Abraham Lincoln’s chief economic advisor.

For more information, see Roger Maduro, “The Olive Branch: How a Book Saved the Nation,” [EIR](#), Nov. 9, 2007 (originally published in *New Solidarity*, Aug. 26, 1983).



Mathew Carey (1760-1839); painting by John Neagle, 1825.

Hamiltonian design. Instead of its own notes, it reissued state banknotes as loans and discounts, especially in the interior regions; it was unwilling to issue its own, because it might be compelled to pay at one of many places remote from the point of issuing them, when they showed up at a different branch.

The continuance of this situation would have defeated the objective in establishing the Bank, since by declining the issue of its notes, it could not furnish the circulating medium expected of it, and by re-issuing the notes of the state banks, it surrendered its most efficient means of control over the currency, which was to keep exchange rates to a minimum by regulating the state bank currencies, and providing a national currency. It couldn't press the state banks for payment of specie for its notes, when it wasn't even issuing its own notes and was sitting on capital far beyond its currency issued. This state of affairs was fatal to the Bank's intended usefulness.

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## 2. Biddle Restores Hamilton's System

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Having served as a Bank director since the time Cheves became president, Biddle was voted in as president of the Bank in January 1823, with a different intention and background than the previous two directors. He knew the prolongation of depressed business conditions after 1820 had resulted from the needless continuation of restrictive policies of the National Bank. With a legacy of pushing for internal improvements as a state senator, promoting technological agriculture, and having fully internalized Hamilton's conception of the Bank,<sup>15</sup> he came in ready to enact the changes necessary to create a national currency. He had written to Secretary of War John Calhoun the month before, in December 1822:

This unfortunate institution has from its birth been condemned to struggle with the most perplexing difficulties, yet even with all its embarrassments it has sustained the national currency and rescued the country from the domination of irresponsible banks, and their depreciated circulation. The time has perhaps arrived when it may combine its own and the country's security with

a more enlarged development of its resources and a wider extension of its sphere of usefulness. To this object ... my own exertions shall be anxiously directed.

Now, as president, Biddle could introduce the system for which he'd been pushing, as a first step in remedying the situation. Biddle saw two interconnected actions as necessary, both of which he began implementing in February. One was to make the state bank currencies equivalent to specie at the places issued, which would make them effective for local purposes, require less currency, and reduce the cost of commerce to the proper value. The other was to make the Bank itself the channel of the commerce.

He permitted the interior Bank branches to issue notes as they had before 1819, rather than conduct banking second-hand with state banknotes. But instead of loaning money, he required the branches to issue them almost entirely for purchase of bills of exchange. Biddle recognized that merchants follow predictable pathways of trade, and by unifying the various business centers of the Bank branches, he could solve multiple problems at once.

The Bank's currency was issued for bills of exchange drawn on Eastern cities—i.e., issued for claims of debts owed to merchants in the Eastern cities—and would be sent to the Eastern branches of the Bank, where the bill of exchange was to mature and eventually be paid by the debtor, in coin. The notes originally issued by the Western branch to purchase a merchant's bill of exchange would eventually find their way to the East Coast, due to the high demand for funds in the payment of duties. This way, when a merchant cashed in a Western banknote to pay duties to the government, the Eastern branch would be supplied with ample coin to redeem the note from the funds built up from the collection and sale of the bills of exchange at the East Coast branches, even though the note was originally issued 1,000 miles away.<sup>16</sup>

The producer or shipper of produce at New Orleans,

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15. For the development of Hamilton's concept of the Bank of the United States, see *NAWAPA XXI Special Report*, pp. 57-67, *op. cit.*

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16. For example, the New Orleans branch would accept a bill drawn on Pennsylvania, meaning Pennsylvania would pay the debt for a merchant's transaction. The New Orleans branch would pay for the bill of exchange in banknotes. That branch would then send the bill of exchange to Pennsylvania, where it would eventually be paid for by the merchant or debtor. Eventually, the notes that were issued in New Orleans to a merchant for that bill of exchange would wind up at one of the Atlantic branches, cashed in for payment, and the Eastern branch would be able to pay, having received coin from the debtor.



A promissory note issued by the Second Bank of the United States. The creation of a uniform currency of banknotes created a dependable means of payment, replacing the hodge-podge of currencies of the various states.

in making shipments to Europe, could cash his bill on credit, drawn against such shipment, without charge for brokerage. The planter would sell to the shipper, who then had his bill of exchange discounted by a branch of the Bank, and was thus able to pay the planter without delay, and without charging the planter the interest he was charged by a broker.

The involvement of the Bank also kept exchange rates low and relatively fixed. By becoming the great purchaser of bills in the producing regions of the country, and seller in the East, the Bank prevented too great a fall in the rate of exchange in one place and too great a rise in the other, a stabilization that was only protested by the brokers and speculators, whose interest it was that the rates of exchange be low in the interior, and high at the seaboard where they were sold.

Within six months, the Bank had transformed its role; its notes were a substantial portion of the total circulation, allowing it to keep the state banks in check.<sup>17</sup> Since national notes were sought for interstate commerce, and since domestic and foreign taxes were often paid with state banknotes, the branches of the national Bank were often able to raise a balance in their vaults of more state banknotes than the state bank held of its own notes. When this occurred, if a state bank exceeded the requirements of the business community, it was confronted with demands for settlement in specie from the other banks and was forced to contract its circulation. This balance in favor of the Bank was a condition built into the system, and served as a chief regulatory func-

tion. By keeping the currency sound and at or near par, and the solvency of the banks having seldom to be considered in fixing the rate of exchange, business was conducted at less expense to the country.<sup>18</sup>

In addition to engaging a large amount of the Bank's capital in bills of exchange, Biddle also altered Cheves' practice with respect to loans. Instead of his policy of seeking long-term security in lending on the basis of company stock or real estate, which had further decreased the Bank's influence in commerce, he sought quicker loans toward production, manufacturer, and distribution of raw materials and goods.

Over the course of two years, the currency of the country had been brought under control, linked directly to the commercial exigencies of the nation, and state bank currencies were relegated to their appropriate place, relieving honest state banks from taking on a larger demand for commerce than they could support, and shutting down dishonest money-making operations.<sup>19</sup> The state bank presidents became some of the most ardent supporters of the Bank, under-

18. Also, the Bank's great capital, its role as government depository in transmitting funds to the places where they were to be expended, and the fact that its notes were receivable for all debts to the government and custom house bonds, contributed to the Bank's ability to keep the exchange rate relatively fixed and low. Friends of Domestic Industry, *Report on the Bank Question*, 1832, New York Convention.

19. The speculative interests and enemies of the credit system which the Bank of the United States under Biddle was facilitating, reacted immediately to his operations of 1823-24. Speculators who were owners of the shares in the Bank and controlled some of the Bank's directors, attacked Biddle for not increasing dividends, and circulated letters that he was regulating the currency at the cost of state banks, attempting to sway stockholders to vote in a new President in January 1825. The vote by the directors on the speculators' motion failed, setting into motion a speculative attack the following year, 1826, when the same group would later attempt to subject the Bank to the control of a single private interest by owning the majority of the Bank stock. They timed the operation to coincide with a debt payment of the government, when the funds of the Bank would be fully tied up. Over the course of a year beginning in 1825, Jacob Barker, a New York speculator, gained control of 14 banks and insurance companies. Biddle waited out the plan, and other such speculative attempts, by presenting any of the notes of Barker's banks for immediate redemption, knowing Barker had used the assets of his first purchase for the second bank, and used the second to buy the third, and so on, and could not withstand actual redemption of its notes for specie, the whole scheme collapsing in fraud by the Fall of the year. This is an extreme, but precise, example of the built-in regulating capability of the issuance of state banknotes by a properly managed Bank of the United States.

17. Thomas Payne Govan, *Nicholas Biddle: Nationalist and Public Banker* (Chicago: University of Chicago Press, 1959), pp. 86-87.



standing the challenge of regulating a national currency, and glad to serve the local needs of their communities in smaller loans, while the Bank of the United States engaged in the larger regional and national trade associated with bills of exchange, the collection and distribution of government funds, as well as the creation of a far more extensive source of credit for all areas of productive enterprises (see the next section).

Congressman McDuffie described the benefits in 1830:

It is not among its least advantages that [the currency] bears a proper relation to the real business and exchanges of the country; being issued only to those whose credit entitles them to it, increasing with the wants of the active operations of society, and diminishing, as these subside, into comparative inactivity; while it is the radical vice of all government paper to be issued without regard to the business of the community, and to be governed wholly by convenience of government.<sup>20</sup>

In 1828, in Richard Rush's last report as Secretary of the Treasury, he reviewed the actions of the Bank, concluding, "Under the mixed jurisdiction and powers of the state and national systems of government, a national bank is the instrument alone by which Congress can effectively regulate the currency of the nation."

Having reviewed these actions by Biddle, we now step back to view the broader characteristics of the full credit system which was being implemented.

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### 3. The American Credit System

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With the proper role of the Bank of the United States restored, and John Quincy Adams becoming President (1825-29), the period that ensued inaugurated the greatest growth yet in our history, and, in effect, a new "Declaration of Independence."<sup>21</sup>

The nationalist impulse for growth had been eagerly awaiting such a state of affairs with many plans growing for internal improvements but unable to take shape. Canal subscriptions had been slow, and state govern-

ments were in no position to make such long-term investments, which would be bigger than any undertaken before, and would tie up much of their surplus funds. It was only because of the new confidence of the people that the Bank was finally established and would provide a stable currency for the foreseeable future, and be a source of credit, that the new lands were then settled with such speed, manufactures with such spirit, and canal projects with such scope.

The bank, because of the facilities which it affords in the exchanges, as well as on account of the uniformity in the currency which it establishes, is now a splendid pillar in the broad "American System;" for a large part--perhaps two-thirds of all its accommodations, in one way or another, are for the direct encouragement and extension of agriculture and the mechanic arts, the promotion of internal improvements, and erection of all sorts of buildings--dwellings and stores, and factories and workshops.... The power of this institution was once possessed by speculators--stock and money jobbers, monopolizing its means and playing into each others hands.<sup>22</sup>

We shall now review the relationship of the Bank of the United States to the promotion of manufactures, agriculture, and internal improvements.

#### The Bank and Internal Improvements

With the Hamiltonian Credit System of national banking re-established, American patriots proceeded to work with the Bank of the United States to utilize its full power and promote internal improvements for continual growth and expansion of the interior of the country, based on that credit system, opening up transportation routes for the products of the new lands.

In April 1824, President Monroe recognized the constitutional mandate for government financing of improvements of the interior regions of the country, and Congress authorized the General Survey Act of Congress, which appropriated money toward such ends. The Erie Canal was coming to completion, and other states began realizing the vast resources of their interiors, which were going to waste without being submitted to the application of labor.

Biddle, who had pushed for canals in Pennsylvania

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20. Rep. George McDuffie, 1830 Congressional Committee for the Investigation of the Bank of the United States.

21. Chaitkin, *op. cit.*, footnote 2.

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22. *Niles' Weekly Register*, Vol. XLIII, Sept. 22, 1832.

unsuccessfully as a state senator in 1811, had succeeded in 1815 in persuading his fellow legislators to charter the Shuylkill Navigation Company, and attempted to gain support for a Chesapeake and Delaware Canal, and a canal connecting the Susquehanna to the Allegheny rivers in 1816-17. Now as president of the Bank, Biddle spoke out on internal improvements, advocating investments and loans for canals, rail, turnpikes, river navigation, and harbors.

President John Quincy Adams utilized the Bank for financing large projects, purely within the profit of the credit system itself, without borrowing money, and Biddle loaned and subscribed directly for nearly 50% of all the capital raised to construct the six major anthracite coal canals for the iron industry. Some examples of this credit financing are reviewed here.

In November 1824, Biddle joined Mathew Carey in organizing the Society for the Promotion of Internal Improvements of Pennsylvania. Throughout 1825, Biddle held the position of secretary at its meetings, where a canal convention in Pennsylvania was planned for the purpose of petitioning the legislature to provide funds for the opening of a water route from Philadelphia to Pittsburgh by connecting the Susquehanna and Allegheny rivers, and creating a system of canals throughout the state.<sup>23</sup> The convention took place in August 1825, and the governor signed off on the project in February 1826. The final resolution of the Canal Convention stated:

Be It Resolved ... that the application of the resources of the State to this undertaking ought not be regarded as an expenditure, but as a most

23. As pointed out in Anton Chaitkin's article referenced earlier, William Strickland, a member of the Society who was sent to Europe to study canals and rail, moved the society in favor of rail projects. Biddle later pointed out to the association that, with coal at each end of the state and iron in the middle, the expense of building and operating the steam wagon would not be very great. "Once established it would inevitably bring western trade through the heart of PA to its commercial capital."



The White House Historical Association

*President John Quincy Adams utilized the Bank for financing large projects, purely within the profit of the credit system itself, without borrowing money. Painting by Gilbert Stuart, 1818.*

beneficial investment; for its successful execution will increase the public wealth, improve the public revenue, and greatly enlarge the ability of the State to extend her aid to every quarter where it may be wanted, and, and at the same time, will encourage industry, create circulation, extend trade and commerce, enhance the value of land, and of agricultural and mineral products, and thereby augment the means of the citizens to promote his own and the public welfare by contributions to similar works.

These various conventions converged on the determination that state governments should

undertake a vast network of internal improvements. President Adams intended to promote the plans, embarking on the largest Federally financed infrastructure project in our history, planning the Chesapeake and Ohio Canal, and for the first time, subscribing to a national canal explicitly through the future profit of the directed loans of its stock in the Bank of United States.

In 1825, Congress authorized a subscription to the stock of the Chesapeake and Delaware Canal Company, stating:

That the Secretary of the Treasury be, and he is hereby, authorized and directed to subscribe, in the name and for the use of the United States for one thousand five hundred shares of the capital stock of the Chesapeake and Delaware Canal Company, and *to pay for the same*, at such times, and in such proportions, as may be required by the said company, *out of the dividends which may grow due to the United States upon their bank stock in the Bank of the United States* [emphasis added].

In other words, the Treasury Secretary would purchase stock of the company with which it would pay its

workers, with credit based on the future profit of the Bank of the United States. In addition, during 1826-28, the Bank<sup>24</sup> directly loaned the company \$1 million in four installments.<sup>25</sup>

In his Dec. 6, 1825 State of the Union speech, Adams announced this subscription and also the completed surveys for “a canal from the Chesapeake Bay to the Ohio River,” which would be the largest Federally sponsored internal improvement up to that time.

Eight days later, Charles Carroll and Hezekiah Niles pushed the state of Maryland toward this goal, holding the State Convention on Internal Improvements on Dec. 14, 1825, at which the main topic was the Chesapeake and Ohio Canal. Carroll—signer of the Declaration of Independence, and co-founder of the first and second banks of the United States—presided over the convention, and became one of the directors of the Chesapeake and Ohio Canal. Their analysis showed, as in Pennsylvania, that taking a loan for the principal and interest for a few years would generate, almost immediately, through agricultural production and coal shipped along the canal, more than enough to pay the interest on the loan, from increasing land values, exports, and the increased productivity of the population. “From such a population,” they wrote, “engaged in all the pursuits of agriculture commerce and manufactures, no revenue that can ever be required for the support and maintenance of the laws; the establishment and extension of public works; or, what is of still more importance, a well organized system of education, which shall ensure to all her children the lights of knowledge, can ever be oppressive or burdensome.”

President Adams wrote in his memoirs, June 1826: “General Bernard told me that the Board of Engineers this morning completed their report upon the Ches-



The Maryland Historical Society

*Charles Carroll (1737-1832) was a co-founder of both the first and second Banks of the United States, and was one of the directors of the Chesapeake & Ohio Canal. Painting by Michael Laty.*

apeake and Ohio Canal. He also mentioned the vote in the House of Representatives this day for the passage to the third reading of a bill authorizing the subscription of one million of dollars in five annual installments to the stock of the Chesapeake and Ohio Canal. It passed by the unexpected majority of forty-four votes, and was very gratifying to the inhabitants of the District.”<sup>26</sup>

Congress also authorized the Secretary of the Treasury to make a subscription to the canal company’s stock: “Be it enacted by the Senate and House of Representatives....That the Secretary of the Treasury be, and he is hereby, authorized and directed to subscribe, in the name and for the use of the United States, for ten thousand shares of the capital stock of the Chesapeake and Ohio Canal Company, and to pay for the same, at such times, and in such proportions, as shall be required

24. On Oct. 17, 1828, after the Bank of the United States loaned \$1 million to complete the canal between 1826 and 1828, Biddle gave an address on the Chesapeake and Delaware Canal. He saw this section of the intracoastal waterway as a strategic block against foreign enemies, so that never again could the blockading fleets of a hostile power prevent the internal movement of troops and supplies. He described the general effect of the improvements and how local interests would be best served by promoting the interest of the others. “In truth every mile of the railroad westward, every section of a canal in the remotest part of the Union, is serviceable to all the American cities. They add to the movement and the mass of the nation’s wealth and industry; they develop its resources; and the share of these advantages which each can obtain is a fit subject of generous competition, not of querulous rivalry.”

25. “Million Dollar Club” <http://www.neversinkmuseum.org/articles.html>

26. Later, in 1828, Adams wrote: “Mr. Rush came to speak of putting into operation the Chesapeake and Ohio Canal. He subscribed last week for a million of dollars of the stock for the United States, and has been urging the Mayors of Washington and Georgetown to make preparations immediately for commencing the work.”



U.S. Army Corps of Engineers

*Results of the program of internal improvements included the Chesapeake & Delaware Canal (shown as it looks today), which was financed in part with a \$1 million loan from the Bank of the United States.*

of and paid by the stockholders, generally, by the rules and regulations of the company, out of the dividends which may accrue to the United States upon their bank stock in the bank of the United States.”

On July 4, 1828, John Quincy Adams dedicated the C&O canal,<sup>27</sup> giving his famous address: “It is one of the happiest characteristics in the principle of internal improvement, that the success of one great enterprise, instead of counteracting, gives assistance to the execution of another.”

Other canals reflected the efforts of the same network of collaborators and participation of the Bank. The Lehigh River Canal, completed in 1829, was financed by Ebenezer Hazard (a political operative of Mathew Carey), and by the Bank of the United States. Philip Hone, a political lieutenant to Clay and Biddle, who was elected mayor of New York in 1825, built the Delaware and Hudson Canal, from northeast Pennsylvania into New York City; this was financed by the State of New York, the Bank of the United States, and by Hone’s merchant friends.<sup>28</sup>

27. That same day, a groundbreaking ceremony took place for the Baltimore and Ohio Railroad, for which Charles Carroll, the last remaining signer of the Declaration of Independence, then 92 years old, laid the cornerstone.

28. In 1830, the Bank of the United States loaned \$250,000 to the Dela-

The six major canal companies which were chartered in the 1820s, and which created the great canal systems, were run by private individuals, but the Bank of the United States, state banks, the Federal government, and the state governments were among the subscribers to its stock. The managers of the canal were constrained to operate it in the public interest, not with the sole purpose of profit, and the politicians could not use it as a source of patronage to increase their personal or party power.

### **The American Exception**

The credit system of the 1820s and ’30s was a uniquely American invention and uniquely a product of the government’s regulation of the currency, to channel all the available surpluses from the productive economy

into an increased availability to generate more productive surpluses, through the means of the National Bank.

The most fundamental concept of a credit system is the operation of a physical system on the basis of the future productive wealth to be generated by that system, which will exceed the physical capital initially invested into that system. The credit system meant that any citizen could compete with a wealthy capitalist; that it was the right of anyone with a spirit of enterprise to receive the means to increase productivity.

In settling and cultivating new lands, families that lacked stores of gold or stock in companies, took with them little more than their clothing, furniture, agricultural implements, and a small herd of cattle. In a few years, the fertility of the soil enabled them to send a

ware and Raritan Canal. In the Spring of 1832, records show “loans on other stocks” were roughly \$1.2 million each month January through April to various canal companies. In April 1832 alone, the Bank loaned and purchased shares of stock to multiple canal and rail companies: Union Canal \$160,000, Schuylkill Canal \$130,000, Chesapeake & Delaware \$300,000, Lehigh \$340,000, Delaware and Hudson Canal \$110,000, Delaware and Raritan Canal \$100,000. In 1831, the Erie Rail Road Co. was chartered under the title of Little Schuylkill and Susquehanna Railroad Company. Little was done on the railroad until 1836, when the United States Bank subscribed for \$250,000, encouraging others as well, and enabled the company to commence construction. That same year, Biddle was president of the Erie Railroad Convention.

surplus of agricultural produce to exchange for European-manufactured products at the stores of the country traders in the nearest towns; these traders in turn transmitted the produce to the seacoast, for consumption in the more thickly settled portions of the country, or for export. While generating this new wealth, these various classes obtained the necessities of life to a great extent from the merchants in the interior, on credit founded on the expected returns of their industry, whether in a few months for the tradesman, a year for the manufacturer, or when the farmer's crops are sold.

Active trade is kept between seaports and interior, and those in the interior stand in need of various articles, which for many years they require on credit to be paid for from the next year's harvest, it follows that the interior is invariably in debt to the merchants on the sea board. *These debts they are enabled to discharge by their cultivation and the advance of prosperity in the improvement of the country; and contrary to a received maxim in other countries, they grow rich although they continue in debt:* that is, they are constantly augmenting the value of their farms, and each year they are enabled to enjoy some additional comfort or luxury, which they do not hesitate to purchase on credit, because they are in general certain of being better able to pay for it before the lapse of another year [emphasis added].<sup>29</sup>

They were able to purchase on credit, because of the operations of the Bank of the United States, which guaranteed payments for goods and wages for laborers, or made loans of banknotes available.

Congressman Charles Barnitz of Pennsylvania declared in 1834:

The merchant in the country obtains his credit to the usual amount from the merchant in the city, and he in turn has his accommodations from the United States Bank, the great center and source of the active capital of the country. Thus the accommodation and credit originally obtained from the bank is extended from the one to the

other, in a beneficial course, until it reaches, in some useful degree, to every workshop and every cottage; and those acquainted with the operations of business, know that these benefits have been extensively enjoyed, although, in a manner silent and imperceptible, until a derangement of the course made us to feel and to perceive the injurious cause.<sup>30</sup>

The credit system was the system of transactions outside of the immediate exchange of goods. Credit and money are not comparable; money is a direct conversion of goods, whereas credit lies outside the goods, and was the means to avoid such push-and-pull mechanisms. The Bank coordinated and balanced the debts and credits between the parties involved, allowing payment for commodities to be separated from the immediate transaction at hand. Debts would be set off from payment until, with the passage of time, various other debts and credits had arrived in the Bank and its branches with which to settle the transactions. The role of the branches of the National Bank, in taking such a great role in the domestic and foreign exchange market, was to coordinate these debts and credits with the least expense and greatest facility for the whole economy, as well as to provide loans directly. Numerous transactions to settle debts, such as bills of exchange between branches, were handled so as not to involve any gold and silver in the operations, allowing the rest of the capital generated to be absorbed into further productive growth.

Biddle's statement, in a letter to John Quincy Adams, rings clear: "In truth the banks are but the mere agents of [the] community. They have no funds not already lent out to the people, of whose property and industry they are the representatives. They are only other names for the farms, the commerce, the factories, and the internal improvements of the country...."<sup>31</sup> The Bank of the United States was a means through which the powers of government and production operated.

Michel Chevalier, a Frenchman touring the United States in 1834, made a number of observations on the uniqueness of the situation created by the Bank of the United States from 1823 to 1834, in contrast to Europe, and France in particular:

29. "The Bank Question, Report on the Currency," by a Committee of the New York Convention of the Friends for Domestic Industry, *The American Quarterly Review* Vol. XI, March & June 1832.

30. Rep. Charles Barnitz May 19, 1834, House of Representatives, Speech on the Removal of the Deposits from the Bank of the United States.

31. Letter to John Quincy Adams on the Specie Circular April 5, 1838.



The great extension of credit, which resulted from the great number of banks, and from the absence of all restraint on their proceedings, has been beneficial to all classes, to the farmers and mechanics not less than to the merchants. The banks have served the Americans as a lever to transfer to their soil, to the general profit, the agriculture and manufactures of Europe, and to cover their country with roads, canals, factories, schools, churches, and, in a word, with every thing that goes to make up civilization. Without the banks, the cultivator could not have had the first advances, nor the implements necessary for the cultivation of his farm.... The credit system has ... also enabled him, although indirectly, to buy at the rate of one, two, or three dollars an acre, and to cultivate lands, which are now, in his hands, worth tenfold or a hundred fold their first cost. The mechanics ... owe to it that growth of manufacturing industry, which has raised their wages from one dollar to two dollars a day.... [I]t furnishes the means by which many of their number raise themselves to competence or wealth; for in this country every enterprising man, of a respectable character, is sure of obtaining credit, and thenceforth his fortune depends upon his own exertions.<sup>32</sup>

It was only through this system that the opening of new lands became possible, to the extent that was carried out. With this system of credit, any free man inspired with the spirit of invention, would not be inspired in vain. Chevalier pointed out that this was not the case in Europe, where manufacturers, smiths, masons, canal



*Frenchman Michel Chevalier (1806-79) visited the United States in 1834-36, and liked what he saw. He wrote: "A metallic currency, has, in our [European] notions, a superiority to any other representative of value, which to an American ... is quite incomprehensible; to our peasants, it is the object of a mysterious feeling, a real worship; and, in this respect we are all of us more or less peasants."*

engineers, et al., who possessed the capital needed to construct a project for their community, that is, the necessary labor, skill, and workforce, etc., kept their designs on paper, since they had *no means of raising on their lands and houses the ready money to serve as currency between the commodities to be exchanged*.<sup>33</sup>

Without the Bank, the tradesman was unable to sell his wares, the laborer was unable to use his hands, and the canal engineer unable to pay his workers, and this was exactly the case in most places in Europe at the time, which lacked this system of credit. Nearly all such projects and industrial growth that required large investments, stood idle, since only those with large stores of wealth had the ability to undertake them.

Loaning on interest was the proper use of surplus capital for those who would generate wealth far beyond the original

use of the capital. In Europe, noblemen were generally unwilling to lend their capital for productive use, and tended to accumulate it as stores of metal currency; but in America, anyone who wanted to get a loan was able to be industrious.

It was never the intention of equal rights, that the man qualified for commercial pursuits should not embark in them on capital obtained for an equivalent interest secured to the lender. It was never designed that the man of skill in the manufacturing arts should not have that scope given to his enterprise and usefulness which a confidence established between him and the money lender is so well calculated to carry out into the community; nor was it ever contemplated that the farmer, who stands first in the important train of interests ... should not strive to become the owner of the soil he cultivates by a purchase

32. Michel Chevalier, *Society, Manners and Politics in the United States: Being a Series of Letters on North America, 1834-1836*. (Boston: Weeks, Jordan and Company, 1839).

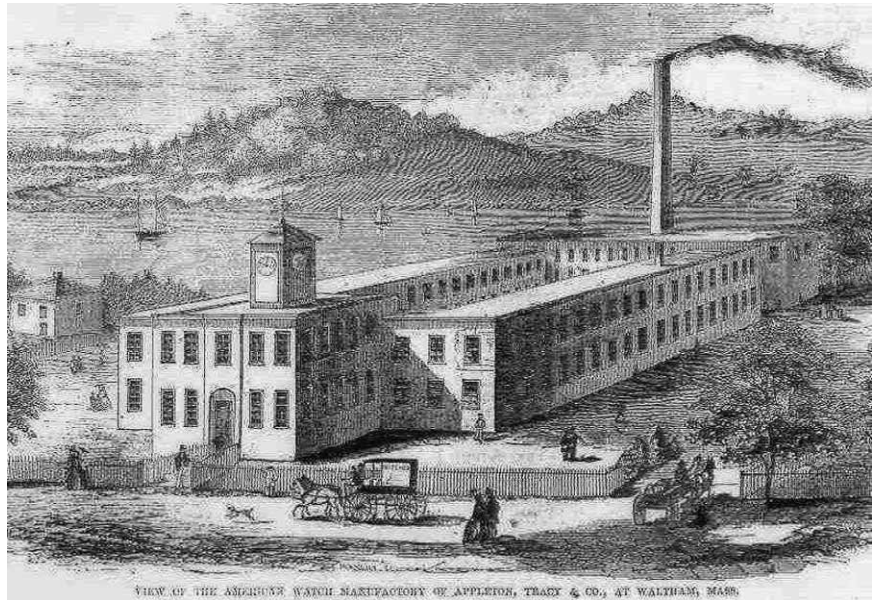
33. *Ibid.*

upon credit, depending upon the products of his labors to discharge the debt. It was never designed by the laws which regulate and protect the rights of well ordered communities that none but capitalists should engage in the active pursuits of civilized life.<sup>34</sup>

The success and possibility of this system of credit was based on the confidence of man in his fellow man which existed in America, and particularly so, once the government had made proper use of its powers. "Conscious of the ability to meet his own engagements, each was willing to repose confidence in those of his neighbor; and that confidence had been so fully and honorably redeemed as to have given to credit a firmness and extent which threw wide open to industry and enterprise the avenues to competence and wealth."<sup>35</sup> Since good conduct of a worker could ensure his ability to obtain the aid of capital, rendering his labor more productive and his condition improved, there was an increasingly large number of incentives for Americans to apply their property productively and accumulate real wealth. The tendency to moral improvement increased, while interest for borrowing capital decreased.

The situation opened up by this established system of credit led to the greatest prosperity throughout the Union in its history:

That enterprise had encouraged industry; competence had rewarded labor; commerce had carried our produce to a ready, profitable, and fair market; and mutual confidence had extended, without weakening credit; that the constant occupation given to our mechanical and laboring classes, and ready payments made to them, had



VIEW OF THE APPLETON WATCH MANUFACTORY OF APPLETON, TRACY & CO., AT WALTHAM, MASS.

*It is the ability to engage in long-term investments for industry, infrastructure, and agriculture, on the basis of their future completion, which determines whether an economy is operating under a credit system—not what is exchanging hands. Shown is a 19th-Century watch factory in Waltham, Mass.*

enabled them, equally with the more wealthy, to obtain those articles necessary to their wants or their comfort, which our commercial intercourse with the largest cities in our Union had introduced amongst us.<sup>36</sup>

Chevalier pointed out that this confidence and security made the difference in Europe:

In France ... it would be difficult to teach them to look upon a scrap of paper, although redeemable at sight with coin, as equivalent to the metals. A metallic currency, has, in our notions, a superiority to any other representative of value, which to an American ... is quite incomprehensible; to our peasants, it is the object of a mysterious feeling, a real worship; and, in this respect we are all of us more or less peasants.

The Americans, on the other hand, have a firm faith in paper; and it is not a blind faith.... [T]hey have had their continental money, and they need not go far back in their history to find

34. Senate Documents. Submitted by 253 citizens of Northumberland County, Pa., "For the restoration of the Deposits, and renewal of the charter of the Bank of the United States." May 1, 1834.

35. Senate Documents, 23d Congress, 1st Session, Submitted by a group of citizens of Essex County, N.J. "Against the removal of the Deposits, and in favor of the recharter of the Bank of the United States." May, 13, 1834.

36. Senate Documents, 23d Congress, 1st Session. Submitted by a group of the People of Bristol County, Rhode Island, "For the restoration of the Deposits, and recharter of the Bank of the United States," March 29, 1834.

a record of the failure of the banks in a body. Their confidence is founded in reason, their courage is a matter of reflexion.... [I]t will be a long time before we shall be in a condition, in France, to enjoy such a system of credit as exists in the United States or England; in this respect we are yet in a state of barbarism....<sup>37</sup>

The ability to have an entire economy operating on the basis of accepting future payment for productive investment was, and still is, revolutionary. It allowed an increasingly large amount of surplus productivity to be immediately absorbed into further productive investment, because the continued development of the Hamiltonian credit system<sup>38</sup> viewed the currency as a constitutional responsibility of government to facilitate the spirit of enterprise and scientific ingenuity. With an established capability to direct and coordinate interactions of productive growth based on the credit of their completion, nearly any valid enterprise was facilitated through the credit of the Bank of the United States, in coordination with the state and Federal governments, provided it was within the means of the regulated currency. As more agricultural land was developed, as more manufacturing facilities became established, and as more transportation networks for produce and coal for manufacturing facilities were completed, the number of banknotes that could safely be put into circulation increased in proportion, doubling and tripling over that decade.

It is the ability to engage and embark on long-term investments on the basis of their future completion which determines whether an economy is operating under a credit system—not what is exchanging hands. By removing the credit system, Americans suffered, and must always suffer, a sick irony: that with a banner of equal rights waving over our heads, the demand to pay on the basis of existing or past wealth imprisons enterprise, and disables the ability of a person to increase the power of his labor.

## Beating the Monetary System

Various regulations were taken to protect the domestic economy, based increasingly on this credit system, from the influence of speculation, which continuously threatened the delicate structure of future

payment. The process of growth described in 1823-32 was only made possible by constantly regulating and maintaining the financial system within the time scale of the credit system, and preventing the old European money system from introducing its destructive rules, which insist on immediate payment in cash, into the American system.

As stated above, while the currency was fixed to specie in order to give it uniform value, and trade deficits were settled with specie, it was possible to engage in most transactions internally, on the basis on future productivity, credit, and not metal, since most transactions were in fact of such a nature. On the other hand, trade deficits with foreign nations were settled and arranged on the basis of specie, and therefore, foreign merchants had to be paid in coin, not banknotes. This necessity further underscored the importance of operating domestically on a credit system, since all of the coin that would otherwise be locked up for interior circulation would be released for foreign trade. However, if an overabundance of such payments occurred, it would cause shocks to the internal currency, since a removal of coin from banks had a multiplier effect on credit, reducing the total amount of safe lending by banks.

Biddle described the regulation capability in an essay in 1828, paraphrased here:

The increase of too many banknotes increases the prices of domestic goods. While foreigners see a market for their goods in these conditions, they do not take home an equal amount due to the increased price of our goods. This trade deficit must be settled by coin, and soon the specie reserves in the Bank become too little to support excessive paper issues and the banks fail. To prevent failure, the Bank could therefore prevent merchants from borrowing coin to purchase foreign goods, when sensing a drain on specie. When the regulated banking system can curtail loans, domestic goods now fall in price, with fewer notes in the hands of merchants. Debtors now want the scarce notes, and therefore sell goods ever cheaper to obtain them. Foreigners export no more because of the cheap prices for which they would have to sell their goods, money being scarce, and Americans import no more since the market for foreign goods becomes poor. The remaining coin within the country seeks cheaper domestic goods instead, and foreigners find it more worthwhile to return the coin they took away by purchasing domestic goods. The coin will then stay until a superabundance of paper occurs

37. Chevalier, *op. cit.*

38. See *NAWAPA XXI Special Report, op. cit.*, pp. 57-67.

again.<sup>39</sup> Time is thus gained until the arrival of the internal Southern exchange market, which will supply the demand without the aid of coin, and then everything resumes its accustomed course.

We will now detail this and other important regulatory functions which Biddle performed as president of the Bank, and then comment on the central feature of his method.

Biddle coordinated payments of war debt so as to avoid a mass of funds being taken out of circulation all at once on the anticipated dates, by inviting creditors to borrow money ahead of time, gradually, protecting the economy from losing its customary credit facilities due to a mass of government funds being unavailable for lending.<sup>40</sup>

In 1825-26, even in the midst of a government debt payment, Biddle protected the American economy from one of the greatest speculative waves of the century, centered in London, by taking measures to prevent all branches of the Bank from engaging in the excessive lending, beyond the actual needs of the economy, and keeping the Bank in a position to prevent a bank panic due to occurrences on the London market. When all state banks had closed their doors and a general panic was threatening the country, his Bank prevented interstate specie drains by coordinating through its branches, initiating a gradual supply of credit, even though 104



*The British monetarist system at work: William Hogarth's "The Flood Debtors' Prison," from "A Rake's Progress," ca. 1733. The 1825 London banking collapse and panic would have spread to the U.S., had it not been for Biddle's Bank.*

banks closed in London, and companies were going bankrupt throughout Latin America. The Bank remained sound, since its primary motive was convenience and stability for the economy as a whole.<sup>41</sup>

The Bank's regulation capability prevented an internal collapse of the economy in the Winter of 1827-28. A flood of imports, combined with a collapse of American exports, created a perfect storm for the export of specie, as American planters were not supplying funds to purchase bills of exchange for imports, which continued to

39. Biddle, "Essay on Banking," April 1828.

40. "In large payments of the principal of the debt ... it avoids the inconvenience of too great an accumulation of money in the vaults of deposit used by the Government, and of the vacuum that would succeed its too sudden distribution. It does this by anticipating, as the periods of payment approach, the disbursement of a considerable portion of the stock, in the form of discounts in favor of those who are to be paid off; thereby enabling them otherwise to employ their capital, as opportunities may offer, beforehand. In this manner heavy payments of the debt are ... made gradually, instead of the whole mass being thrown at once upon the money market, which might produce injurious shocks. So prudently this, and other respects, does the bank aid in the operation of paying off the debt, that the community hardly has a consciousness that it is going on." —Secretary Treasury Richard Rush, Report of the Treasury, 1828.

41. Another key function Biddle initiated that year was to prevent a drain of specie contributing to the ability to weather the global storm. Instead of allowing an annual shock to the economy when merchants trading with China and India would pull a large amount of specie from the banks to trade with, Biddle sold bills of exchange drawn on London, as payment instead, which were equally or even more valuable in the Pacific than specie; the merchants had debts there to settle, which could be done faster this way through American ship-owners, than by sending coin. "This advantage the bank has secured to the community by confining within prudent limits its issues of paper, whereby a restraint has been imposed upon excessive importations, which are thus kept more within the true wants and capacity of the country. Sometimes judiciously varying its course, it enlarges its issues, to relieve scarcity, as under the disastrous speculations of 1825." —Treasury Secretary Richard Rush, 1828.

increase. This crisis, if allowed to “correct” itself, would have been a mirror of London’s 1825 banking collapse. Biddle declined loans to brokers who were exporting specie, and sold assets to collect state banknotes, which decreased, but didn’t prevent, the speculative frenzy for imported goods. He then slowly brought tax payments into the Bank’s branches in the form of state banknotes, and immediately demanded specie from the state banks, until the pressure to reduce their loans reined them in.

During every period of strain and pressure, in these and similar situations of correction and intervention by the Bank, time was the essential factor, since every merchant, banker, and producer operated on credit; what was crucial was to provide the time for adjustment, to keep all assets active in long-term investment and growth, not sitting idle in banks or in Treasury Department boxes.

No one could call in debts and pay for goods that had not yet been produced, without reducing the power of the economy, not because real capital doesn’t exist among the merchants in a credit system, but because the operation of the internal economy based on a credit system increasingly invests its surplus in the active capital of technological and productive progress, and cannot turn this active capital into the demanded payment of gold and silver, which the monetary system imposes. *Valid debts are never immediately collectible in a credit system, as they only present themselves as a continual stream of benefit in the progress of wealth creation, never an object of money.*

Biddle’s principle was to maintain the economy’s operations within the credit system, rather than dipping into the money system for metallic currency; he prevented the use of coin except to balance trade deficits (and even then, as little as possible). Thus, the domestic economy was able to grow in relation to its productive power, on credit, rather than by artificial controls. By these means, he was able to protect the credit system, upon which an increasingly number of all transactions were based, as the freedom and security of a person’s property was more and more established, and as confidence in one’s neighbor and government increased.

The government used the Bank of the United States to protect the real economy from the speculative markets, unlike what would occur in the great crash of 1837, the final effect of the Jackson Administration’s numerous measures to destroy the credit system.

## Conclusion: The People’s Bank

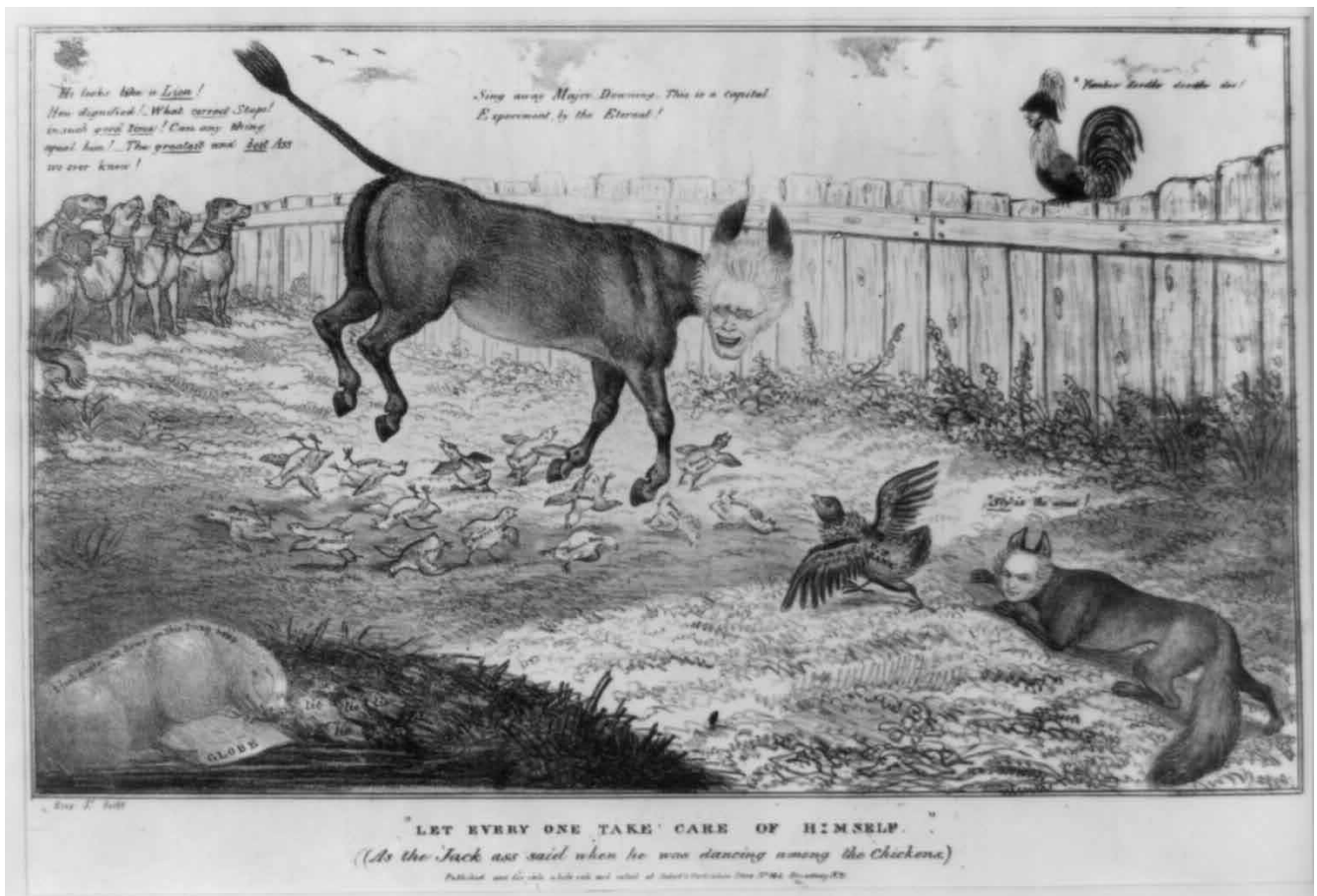
Within a few years of Biddle’s reorganization of the Bank, the confidence of the people that the Bank of the United States would now be the dependable means for economic investment, gave the impetus to enterprise which led to the great expansion of canals and industries, encouraging thousands of industrious, honest, and capable men to commence operations as merchants, manufacturers, and farmers, without sufficient capital at the outset to support their enterprise, leaning for aid upon the credit system. They were fully invested into that future investment system.

With Jackson’s attempted replacement of the credit system with a pure metallic money system, the entire class of citizens who depended on credit--the poorest, yet most enterprising, farmers, manufacturers, and masons--were crushed, while the citizens of the states already bearing a tax for the internal improvements had ripped from their hands the vision of the future. Van Buren mocked the nation as President, in the midst of the intentional contraction of the economy by 50%, following Jackson’s actions with respect to the Bank and currency, saying to the people and state governments, that they were in debt because they had spent too much money, and must now live within their means; that the collapse was due to interference in the “free market” by the Bank of the United States, and remnants of a currency not solely of gold and silver.

Biddle and others attempted in vain, though righteously, to continue the facilities provided by the credit system without the government’s role, preventing a complete contraction of the economy through the continued operations of Biddle’s United States Bank of Pennsylvania, and nearly single-handedly aiding the states in completing canals and building railroads. The American attempt to break free from the monetary system of the British Empire, by defeating it in a foreign-exchange war, was thwarted by the destruction of the Bank, and in the years after, specie was sucked out of the country into England. The United States reverted to near-colonial status, until Lincoln’s forces, those patriots waiting in the wings, struck forward with an approximation of the system implemented under President John Quincy Adams, Nicholas Biddle, Mathew Carey, and others.

The credit system is a system of commerce in which the intention and confidence in *the future* is the medium of exchange, rather than the past production, or stores of wealth built up. It is a system where growth itself is





This cartoon, captioned “Let every one take care of himself,” attacks President Jackson’s plan to distribute Treasury funds, formerly kept in the Bank of the United States, among “branch banks” in the states. Jackson appears as a jackass, “dancing among the Chickens” (the branch banks), to the alarm of the hen “U.S. Bank.” Other political figures of the time look on, including Martin Van Buren, the fox at the lower right.

the currency, not the products of growth. The merchants may be exchanging the same goods that they would be with a hard-money system, but the saving is made possible by a nationwide regulation system and government control, which makes all the transactions on credit possible. Without the regulation and national Banking structure, growth on credit and long-term investment is not possible. Without the regulated exchange rates which the Bank of the United States created through its national power, there was no long-term assurance in investment, and all transactions accomplished by the various private and local substitutes served as, in effect, a large tax upon all sectors of the economy.

The credit system makes possible not merely more output, but more of higher quality, and allows an economy to be commensurable with the spirit of man, the spirit of enterprise; to be related to moral incentive.

In addition to a re-establishment of a Bank of the

United States, what is needed today is for a group of statesmen in industry, agriculture, science, and technology to be the main drivers and directors of branches of a national banking system; men and women of the fiber of Mathew Carey, Nicholas Biddle, and Charles Carroll, who have a vision of what the country and world should look like, and who work with their associates in government and business to invest the nation’s and the world’s resources to that end.

Such a team of statesmen must immediately move to replace the bankrupt and rotten financial system with the American System of Public Credit, beginning with a wipeout of the vast derivatives bubble, through the implementation of Glass-Steagall, a derivatives bubble whose creation was as much a violation of the Constitution as that which usurped the Congress’s control of the currency in 1811-16, or the treasonous destruction of the Bank by Jackson in 1832-36.

### *The Handwriting on the Wall*

Take heart: The processes that can remove both President Obama and Mitt Romney from their “front-runner” positions in the upcoming Presidential election are well underway. The major missing ingredient is an escalation from patriotic circles of both political parties in the U.S. around the alternative nation-saving policy: the three-point program starting with FDR’s Glass-Steagall which has been laid out by economist Lyndon LaRouche.

The process driving toward this happy result has developed on several levels. It starts with the reality of the physical economic-financial crisis, which demands that the current murderous system be dumped immediately. LaRouche and his political movement have been organizing around this process, *and the solution*, for more than 40 years—providing the ideas required for a real recovery, not just in the United States, but worldwide.

A critical turning point in this economic process occurred in 2007-08, when there was a surge toward LaRouche’s solution. Unfortunately, the financial oligarchy squelched it.

The Libyan invasion, and the gruesome, blatantly illegal murder of Muammar Qaddafi last October, represented another turning point. As LaRouche has recently emphasized, this atrocity, occurring under the sponsorship of Barack Obama, the British government, and the French, signalled the intent of top levels of the world financial oligarchy to go for confrontation against any obstacles to world domination—most specifically, the sovereign nation-states of Russia and China—even if it meant going to thermonuclear war. The Libya events were intended to kick off an escalating series of confrontations in the Middle East cockpit, leading to that showdown, but they also kicked off a backlash among leading nations, especially in top military layers in the U.S. and Russia.

It is that backlash which has prevented war thus far.

Not surprisingly, that backlash also emerged with leading British oligarchical circles as well, who came to realize that as long as the current bankrupt system and its supervisors (including, most importantly, Obama) remained in place, their very existence—not to mention that of the rest of the world—was threatened. It is from this standpoint that we can locate the July 4 call from the leading British oligarchical mouthpiece, the *Financial Times*, for the implementation of what has been LaRouche’s signature program, restoring FDR’s Glass-Steagall on both sides of the Atlantic.

That act was then followed by British moves that advance us a great distance toward *bringing Obama down*. The Libor scandal, which puts Tim Geithner immediately in the crosshairs for criminal prosecution, was made into a major political issue by the *Times*. Then came the HSBC drug-money laundering scandal, which, while being promoted by leading U.S. Senators, received its major promotionals from the *Financial Times*.

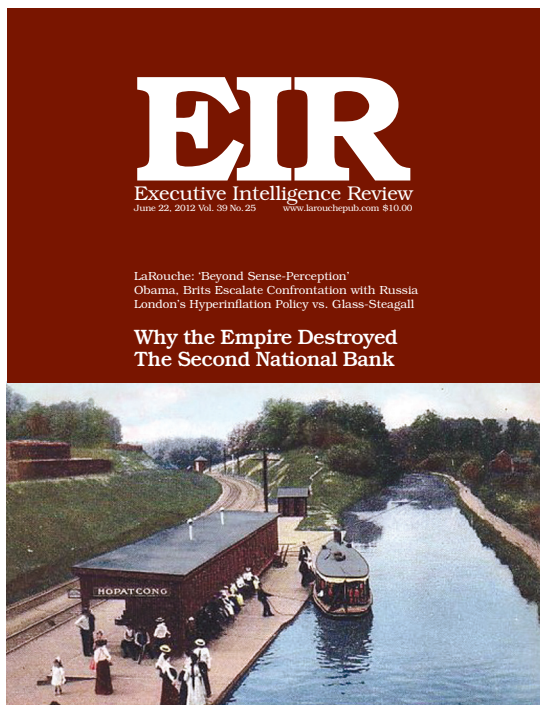
Have the British changed their spots? Not really. But some of them have realized that *survival* depends upon getting Obama and the current financial system *out of the way* immediately, if not sooner. The scandals around Geithner, as around Holder, the leaks, etc., are geared for that Watergate-like result.

As we’ve said before, this *must* be done before the Sept. 3 Democratic Party convention. Obama’s hated character is the only thing which keeps the incompetent Romney in the running. Neither man is qualified to be President, and either would destroy the U.S. That’s enough reason to join the movement to oust Obama, and ram through Glass-Steagall now.

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