

# Enough Bad Banks; We Need Good Ones in a New System

by John Hoefle

Jan. 30—We have said, repeatedly, that the attempts to bail out the global banking system, including the U.S. banks, are not working, will not work, and can not work. Not only will they not restore the banking system to solvency, but they are actually making the economic crisis worse.

There are several problems with the bailout process. One is that the global financial system, with its quadrillion dollars-plus derivatives bets and hundreds of trillions of dollars of worthless securities and unpayable debts, is hopelessly insolvent. This is, and has been from the beginning, a full-blown banking crisis; the widely touted “subprime crisis” and “credit crunch” were marketing slogans created for the purpose of hiding the true nature of the problem, and positioning the banks to lobby for a public bailout under the guise of protecting the so-called “little guy.”

The more fundamental problem is that it is not the financial system which is killing us, but the collapse of the physical economy, that system of infrastructure and productive activity upon which human life depends. Financial systems come and go, but the pain of their passing is nothing compared to the damage to humanity which results from the collapse of the physical economy.

It is said, over and over as if it were some sort of spiritual mantra, that we must save the banking system to save the economy. That is both true and false at the same time. True, because an economy needs a banking

system to serve as an intermediary for the distribution of credit. False, because what the bailouts are attempting to save is not that sort of banking system at all, but a giant speculative casino which should have been shut down long before it blew up. The resources which are being thrown down the bailout rathole would be far better used in rebuilding our physical plant.

The discussions now underway in the political and financial capitals about escalating the bailout schemes through the nationalization of banks, the creation of “bad banks,” and government purchases of worthless paper, are proof that the bailouts have failed. What are we left with? Accelerating job losses, deepening government budget deficits at all levels, rising levels of home foreclosures, and corporate and personal bankruptcies. The more we expand the bailout schemes, the more money we suck out of a failing physical economy, and the more it collapses. The bailouts are not only incompetent from an economic standpoint and criminal from a social one, they are also destroying the economic structures upon which our very lives depend.

We have enough bad banks. What we need are some good ones.

## Fix the Problem

The global economy is unsustainable in its current state. It requires an immediate boost in economic activity. That means we must launch an immediate program to build infrastructure, both nationally and internation-

ally, from mundane projects, such as building and repairing sewer systems, to great projects such as an intercontinental maglev rail network. It means building state-of-the-art nuclear power plants to generate the electricity we need to power the increased economic activity, new steel plants to produce the steel we need, and a greatly expanded machine-tool sector to build the machines we need to build our new economy.

To accomplish that task requires a functioning credit system. We can not simply close all the insolvent banks, clean them up, and feed them back into a banking system which does not work. We must fix the banking system, itself, first. That means putting not only the banks, but the Federal Reserve System, through bankruptcy. We must put the Federal Reserve down.

The method by which this can be done is based on the approach laid out by Lyndon LaRouche in his Homeowners and Bank Protection Act. We close the banks, put all the speculative crap off to the side, to be dealt with later, and reorganize the banks into regulated, functioning entities. Then we take the Federal Reserve, do the same with it, and reorganize its necessary functions into a new version of Alexander Hamilton's Bank of the United States.

At the same time that we freeze the speculative paper, we declare a moratorium on home foreclosures so that people don't lose their homes while we reorganize the economy. We take steps to make sure that essential services such as health care, education, public safety, and similar activities are maintained—that the electricity stays on, the grocery stores stay stocked, and that people whose pensions were lost in the financial crash are protected. The principle is, do what is necessary to ensure the welfare of the population, while we deal with the mess the financiers have created, and rebuild our economy.

## **Credit System**

The Anglo-Dutch imperial central banking system—the one that has died and whose rotting corpse is stinking up the joint—must be replaced with a global system based upon sovereign national credit. There is a vast difference between an oligarchic central banking system and a sovereign credit system, beginning with intent of the people who create them. The oligarchic system, in which the central banks are supposedly “independent,” is designed to allow the international financiers to control nations. This is what Mayer Amschel Rothschild had in mind when he said he cared not who made a

country's laws, as long as he could control its money. The sovereign credit system, in contrast, was designed by Alexander Hamilton to free the nation from such imperial predations.

Under the Hamiltonian American System, as outlined in our Constitution, the Congress authorizes the issuance of credit for specific purposes such as infrastructure projects, and the Treasury handles the distribution of the funds.

The Treasury will do so through a new Bank of the United States, which will act as a intermediary between the Treasury and the private sector, and other governments. The Bank will monetize Federal debt, and pass the government funds into the reorganized private banking system. The banks, in turn, as intermediaries, will distribute the credit to the private sector entities, which had been selected to carry out the projects authorized by Congress.

The Federal government will do what it does best, which is to run large-scale infrastructure projects, while providing credit through the national bank to the private companies who will rebuild our productive base. In this way, the balance between the proper roles of government and the private sector can be maintained, with the government helping create the environment in which the entrepreneurial talents of the private sector can be maximized.

## **Do It Now**

There is no time like the present to implement such a program. The bankers and functionaries of the oligarchic system will howl, and raise the specter of great calamity, but their system is bankrupt, and so are they. Let them scream—they probably need the oxygen anyway.

The Obama Administration has the perfect opportunity to act, to cast out the failed policies of the Bush Administration and its Treasury Secretary, and to correct the damage done by Speaker of the House Nancy Pelosi's supporting the Bush bailout scam. The people are outraged at the bailouts, and will support a return to national sovereignty and productivity—if the President takes the lead in explaining the new policy.

The alternative is to watch the economy continue to collapse, leaving the people at the mercy of forces beyond their control. We cannot allow that to happen, and it need not happen, if our government acts.

*johnhoe@larouche.org*