

Tackling the Infrastructure and Unemployment Crises: The “American System” Solution

By [Ellen Brown](#)

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A self-funding national infrastructure bank modeled on the “American System” of Alexander Hamilton, Abraham Lincoln, and Franklin D. Roosevelt would help solve not one but two of the country’s biggest problems.

Millions of Americans have joined the ranks of the unemployed, and government relief checks and savings are running out; meanwhile, the country still needs trillions of dollars in infrastructure. Putting the unemployed to work on those infrastructure projects seems an obvious solution, especially given that the \$600 or \$700 stimulus checks [Congress is planning on issuing](#) will do little to address the growing crisis. Various [plans for solving the infrastructure crisis involving public-private partnerships](#) have been proposed, but they’ll invariably result in private investors reaping the profits while the public bears the costs and liabilities. We have relied for too long on private, often global, capital, while the Chinese run circles around us building infrastructure with credit simply created on the books of their government-owned banks.

Earlier publicly-owned U.S. national banks and U.S. Treasuries pulled off similar feats, using what Sen. Henry Clay, U.S. statesman from 1806 to 1852, named the “American System” – funding national production simply with “sovereign” money and credit. [They included](#) the First (1791-1811) and Second (1816-1836) Banks of the United States, President Lincoln’s federal treasury and banking system, and President Franklin Roosevelt’s Reconstruction Finance Corporation (RFC) (1932-1957). Chester Morrill, former Secretary of the Board of Governors of the Federal Reserve, [wrote of the RFC](#):

[I]t became apparent almost immediately, to many Congressmen and Senators, that here was a device which would enable them to provide for activities that they favored for which government funds would be required, but without any apparent increase in appropriations. . . . [T]here need be no more appropriations and its activities could be enlarged indefinitely, as they were, almost to fantastic proportions. [emphasis added]

Even the Federal Reserve with its “quantitative easing” cannot fund infrastructure without driving up federal expenditures or debt, at least without changes to the Federal Reserve Act. The Fed is not allowed to spend money directly into the economy or to lend directly to Congress. [It must go through the private banking system](#) and its “primary dealers.” The Fed can create and pay only with “reserves” credited to the reserve accounts of banks. These reserves are [a completely separate system](#) from the deposits circulating in the real producer/consumer economy; and those deposits are chiefly created by banks when they make loans. (See the Bank of England’s 2014 quarterly report [here](#).) New liquidity gets into the real economy when banks make loans to local businesses and individuals; and in risky

environments like that today, [banks are not lending adequately](#) even with massive reserves on their books.

A publicly-owned national infrastructure bank, on the other hand, would be mandated to lend into the real economy; and if the loans were of the “self funding” sort characterizing most infrastructure projects (generating fees to pay off the loans), they would be repaid, canceling out the debt by which the money was created. That is how China built 12,000 miles of high-speed rail in a decade: credit created on the books of [government-owned banks](#) was advanced to pay for workers and materials, and the loans were [repaid with profits](#) from passenger fees.

Unlike the QE pumped into financial markets, which creates asset bubbles in stocks and housing, this sort of public credit mechanism is not inflationary. Credit money advanced for productive purposes balances the circulating money supply with new goods and services in the real economy. Supply and demand rise together, keeping prices stable. China [increased its money supply by nearly 1800%](#) over 24 years (from 1996 to 2020) [without driving up price inflation](#), by [increasing GDP](#) in step with the money supply.

HR 6422, The National Infrastructure Bank Act of 2020

A promising new bill for a national infrastructure bank modeled on the RFC and the American System, [H.R. 6422](#), was filed by Rep. Danny Davis, D-Ill., in March. The National Infrastructure Bank of 2020 (NIB) is projected to create \$4 trillion or more in bank credit money to rebuild the nation’s rusting bridges, roads, and power grid; relieve traffic congestion; and provide clean air and water, new schools and affordable housing. It will do this while generating up to 25 million union jobs paying union-level wages. The bill projects a net profit to the government of \$80 billion per year, which can be used to cover infrastructure needs that are not self-funding (broken pipes, aging sewers, potholes in roads, etc.). The bill also provides for substantial investment in “disadvantage communities,” those defined by persistent poverty.

The NIB is designed to be a true depository bank, giving it the perks of those institutions for leverage and liquidity, including the ability to [borrow at the Fed’s discount window without penalty](#) at 0.25% interest (almost interest-free). [According to Alphecca Muttardy](#), a former macroeconomist for the International Monetary Fund and chief economist on the 2020 NIB team, the NIB will create the \$4 trillion it lends simply as deposits on its books, as the [Bank of England attests](#) all depository banks do. For liquidity to cover withdrawals, the NIB can either borrow from the Fed at 0.25% or issue and sell bonds.

Modeled on its American System predecessors, the NIB will be capitalized with existing federal government debt. According to the [summary on the NIB Coalition website](#):

The NIB would be capitalized by purchasing up to \$500 billion in existing Treasury bonds held by the private sector (e.g., in pension and other savings funds), in exchange for an equivalent in shares of preferred [non-voting] stock in the NIB. The exchange would take place via a sales contract with the NIB/Federal Government that guarantees a preferred stock dividend of 2% more than private-holders currently earn on their Treasuries. The contract would form a binding obligation to provide the incremental 2%, or about \$10 billion per year, from the Budget. While temporarily appearing as mandatory spending under the Budget, the \$10 billion per year would ultimately be

returned as a dividend paid to government, from the NIB's earnings stream.

Since the federal government will be paying the interest on the bonds, the NIB needs to come up with only the 2% dividend to entice investors. The proposal is to make infrastructure loans at a very modest 2%, substantially lower than the rates now available to the state and local governments that create most of the nation's infrastructure. At a 10% capital requirement, the bonds can capitalize ten times their value in loans. The return will thus be 20% on a 2% dividend outlay from the NIB, for a net return on investment of 18% less operating costs. The U.S. Treasury will also be asked to deposit Treasury bonds with the bank as an "on-call" subscriber.

The American System: Sovereign Money and Credit

U.S. precedents for funding internal improvements with "sovereign credit" – credit issued by the national government rather than borrowed from the private banking system – go back to the [American colonists' paper scrip](#), colonial Pennsylvania's "[land bank](#)", and the First U.S. Bank of Alexander Hamilton, the first U.S. Treasury Secretary. Hamilton proposed to achieve the constitutional ideal of "promoting the general welfare" by nurturing the country's fledgling industries with federal subsidies for roads, canals, and other internal improvements; protective measures such as tariffs; and easy credit provided through a national bank. Production and the money to finance it would all be kept "in house," without incurring debt to foreign financiers. The national bank would promote a single currency, making trade easier, and would issue loans in the form of "sovereign credit." '

Senator Henry Clay called this model the "American System" to distinguish it from the "British System" that left the market to the "invisible hand" of "free trade," allowing big monopolies to gobble up small entrepreneurs, and foreign bankers and industrialists to exploit the country's labor and materials. After the charter for the First US Bank expired in 1811, Congress created the Second Bank of the United States in 1816 [on the American System model](#).

In 1836, Pres. Andrew Jackson shut down the Second U.S. Bank due to perceived corruption, leaving the country with no national currency and precipitating a recession. "[Wildcat](#)" [banks](#) issued their own banknotes – promissory notes allegedly backed by gold. But the banks often lacked the gold necessary to redeem the notes, and the era was beset with bank runs and banking crises.

Abraham Lincoln's economic advisor was [Henry Carey](#), the son of Matthew Carey, a well-known printer and publisher who had been tutored by Benjamin Franklin and had tutored Henry Clay. Henry Carey proposed creating an independent national currency that was non-exportable, one that would remain at home to do the country's own work. He advocated a currency founded on "national credit," something he defined as "a national system based entirely on the credit of the government with the people, not liable to interference from abroad." It would simply be a paper unit of account that tallied work performed and goods delivered.

On that model, in 1862 Abraham Lincoln issued U.S. Notes or Greenbacks directly from the U.S. Treasury, allowing Lincoln's government not only to avoid an exorbitant debt to British bankers and win the Civil War, but to fund major economic development, including tying the country together with the transcontinental railroad – an investment that actually [turned a profit](#) for the government.

After Lincoln was assassinated in 1865, the Greenback program was discontinued; but Lincoln's government also passed the National Bank Act of 1863, supplemented by the National Bank Act of 1864. Originally known as the [National Currency Act](#), its stated purpose was to stabilize the banking system by eradicating the problem of notes issued by multiple banks circulating at the same time. A single banker-issued national currency was created through chartered national banks, which could issue notes backed by the U.S. Treasury in a quantity proportional to the bank's level of capital (cash and federal bonds) deposited with the Comptroller of the Currency.

From Roosevelt's Reconstruction Finance Corporation (1932-57) to HR 6422

The American president dealing with an economic situation most closely resembling that today, however, was Franklin D. Roosevelt. America's 32nd president resolved massive unemployment and infrastructure problems by greatly expanding the Reconstruction Finance Corporation (RFC) set up by his predecessor Herbert Hoover. The RFC was a remarkable publicly-owned credit machine that allowed the government to finance the New Deal and World War II without turning to Congress or the taxpayers for appropriations. The RFC was not called an infrastructure bank and was not even a bank, but it served the same basic functions. It was continually enlarged and modified by Pres. Roosevelt to meet the crisis of the times until it became America's largest corporation and the world's largest financial organization. Its semi-independent status let it work quickly, allowing New Deal agencies to be financed as the need arose. [According to Encyclopedia.com](#):

[T]he RFC—by far the most influential of New Deal agencies—was an institution designed to save capitalism from the ravages of the [Great Depression](#). Through the RFC, Roosevelt and the New Deal handed over \$10 billion to tens of thousands of private businesses, keeping them afloat when they would otherwise have gone under

A similar arrangement could save local economies from the ravages of the global shutdowns today.

[The Banking Acts of 1932](#) provided the RFC with capital stock of \$500 million and the authority to extend credit up to \$1.5 billion (subsequently increased several times). The initial capital came from a stock sale to the U.S. Treasury. With those modest resources, from 1932 to 1957 the RFC loaned or invested *more than \$40 billion*. A small part of this came from its initial capitalization. The rest was financed with bonds sold to the Treasury, some of which were then sold to the public. The RFC ended up borrowing a total of \$51.3 billion from the Treasury and \$3.1 billion from the public.

Thus the Treasury was the lender, not the borrower, in this arrangement. As the self-funding loans were repaid, so were the bonds that were sold to the Treasury, leaving the RFC with a net profit. The RFC was the lender for thousands of infrastructure and small business projects that revitalized the economy, and these loans produced a [total net income](#) of over \$690 million on the RFC's "normal" lending functions (omitting such things as extraordinary grants for wartime). The RFC financed roads, bridges, dams, post offices, universities, electrical power, mortgages, farms, and much more—all while generating income for the government.

HR 6422 proposes to mimic this feat. The National Infrastructure Bank of 2020 can rebuild crumbling infrastructure across America, pushing up long-term growth, not only without

driving up taxes or the federal debt, but without hyperinflating the money supply or generating financial asset bubbles. The NIB has [growing support](#) across the country from labor leaders, elected officials, and grassroots organizations. It can generate real wealth in the form of upgraded infrastructure and increased employment as well as federal and local taxes and GDP, paying for itself several times over without additional outlays from the federal government. With official unemployment at [nearly double](#) what it was a year ago and an economic crisis unlike the U.S. has seen in nearly a century, the NIB can trigger the sort of “economic miracle” the country desperately needs.

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Ellen Brown is an attorney, chair of the [Public Banking Institute](#), and author of thirteen books including [Web of Debt](#), [The Public Bank Solution](#), and [Banking on the People: Democratizing Money in the Digital Age](#). She also co-hosts a radio program on [PRN.FM](#) called “[It’s Our Money](#).” Her 300+ blog articles are posted at [EllenBrown.com](#). She is a frequent contributor to Global Research.

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