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Three Presidents Who Made Thanksgiving a National Holiday — And What They Were Thankful For

By Ellen Brown
Global Research, November 26, 2023

Region: USA
Theme: Global Economy, History

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Three U.S. presidents were instrumental in establishing Thanksgiving as a regular national event.

*On October 3, 1789, **George Washington** declared the first federal Thanksgiving holiday. In 1863, **Abraham Lincoln** made it an annual federal holiday. And in 1941, **Franklin Roosevelt** signed a bill setting the date at the fourth Thursday of every November. All three presidents were giving thanks for bringing the country through a major financial crisis related to war, and they all achieved this feat through what Sen. Henry Clay called the "American system" of banking and finance – sovereign or government-issued money and credit.*

For Washington, the challenge was freeing the American colonies from the imperial rule of Britain, then the world's leading military power, when the new government lacked a source of funding. Lincoln faced a similar challenge, leading the Northern states in a civil war while lacking a national bank or national currency to fund it. For Roosevelt, the challenge was bringing the country through the Great Depression and World War II, when 9,000 banks had gone bankrupt at the beginning of his first term and the country was again without a source of credit.

In 1796, after 20 years of public service, George Washington warned in his farewell address to "cherish public credit" and avoid "accumulation of debt," and to "avoid foreign entanglements" ("steer clear of permanent alliances with any portion of the foreign world"). He would no doubt be alarmed to see where we are 227 years later. We have a federal debt of $33.7 trillion, bearing an interest tab of nearly $1 trillion annually — over one-third of personal tax receipts. And we have a military budget from "foreign entanglements" that is also approaching one trillion dollars, devouring more than half the annual discretionary budget. Meanwhile, according to the American Society of Civil Engineers, the country is in serious need of infrastructure funding, tallied at $3 trillion or more; but our debt-strapped Congress has no appetite or capacity for further infrastructure outlays.

However, Washington, Lincoln and Roosevelt faced financial challenges that were equally daunting in their day; and the country came through them and continued to thrive, using a funding device that Benjamin Franklin described as "a mystery even to the politicians."

Hamilton's Revolutionary Fix: Debt-for-Equity Swaps

To fund the Revolutionary War, the Continental Congress resorted to simply issuing the money as paper receipts for goods and services, as the colonial governments had done with their paper scrip. It was this that Franklin wrote was "a mystery even to the politicians, how we could pay with paper that had no previously fixed fund appropriated specifically to redeem it." He said, "This currency as we manage it is a wonderful machine." Thomas Paine called it a "cornerstone" of the Revolution.

But the Continental dollar was not a pure fiat currency. It was "a zero-interest bearer bond." That means it was a debt, which had to be repaid. By the end of the Revolutionary War, the new government was $77 million in debt — $40 million in domestic debt, $12 million in foreign debt, and $25 million in state debt incurred in the Revolution — with no apparent means of repayment.

Alexander Hamilton, Washington's Treasury Secretary, solved the problem with debt-for-equity swaps. State debt was accepted in partial payment for stock in the First Bank of the United States (BUS), paying a 6% dividend. The rest was to be paid in gold. The Bank leveraged this capital into credit, issued as the first U.S. currency.

BUS loans were based on the fractional reserve model. Hamilton wrote, "It is a well established fact, that Banks in good credit can circulate a far greater sum than the actual quantum of their capital in Gold & Silver." That was the model of the Bank of England (BOE), the financial engine of the oppressors; but there were fundamental differences between the BUS and BOE models. The BOE was privately owned and was operated for private profit. It was chartered to be an instrument of government policy capitalized exclusively by public debt. The government would pay the private lenders, who controlled what policies could be funded. What early American economists called the "British System" was geared to exploiting the colonies through "free trade" and the government through usurious interest payments.

Hamilton's BUS, by contrast, was to be a commercial bank, funding itself by generating credit for public works. Its primary purpose, following Hamilton's Report on Public Credit, was to issue credit to the government and private interests for internal improvements and other economic development. Hamilton said a bank's function was to generate active capital for agriculture and manufactures, increasing the quantity and quality of labor and industry. The BUS was intended to establish a sovereign currency, a banking system, and a source of credit to build the nation, creating productive wealth, not just financial profit.

It was thus a national development bank, and so was the Second BUS chartered after the First BUS charter expired. Infrastructure and productivity flourished during that period, including completion of the Erie Canal. But Pres. Andrew Jackson thought only silver or gold coins qualified as an acceptable medium of exchange. He declared war on the bank and shut it down, leaving the country without a national currency or source of national credit for nearly three decades.

Lincoln’s Greenbacks and the National Bank Act

When President Lincoln came into office, he was faced with the prospect of a crippling war debt to British-backed banks at 24% to 36% interest. To avoid that “re-conquest by debt,” his government returned to the practice of the American colonists: it issued U.S. Notes or “Greenbacks,” actually doubling the money supply. The National Bank Act was also passed, allowing banks in the national banking system to issue National Bank Notes backed by the U.S. Treasury. To join the system, banks had to capitalize their banknotes in part with government debt.

These new monies funded not only the war effort but rapid economic development. Most famous was completion of the Transcontinental Railroad, linking both sides of the nation by 1869 and returning a profit to the government. The telegraph system developed beside the railroad; railroad track expanded; and freight tonnage between New York and Chicago grew 75%. By the end of the war, 90 trains entered Chicago every day (vs. none in 1850). Factory output boomed, and mechanization allowed agriculture to flourish, despite one million men being under arms. The money supply was doubled but did not trigger price inflation after the war, because supply and demand rose together, keeping prices in balance.

The Federal Reserve and “Checkbook Money”

But Lincoln was assassinated, the Greenbacks were discontinued, silver was demonetized, and a deep depression followed. A major banking crisis in 1906 led to passage in 1913 of the Federal Reserve Act, modeled on the Bank of England. The twelve Federal Reserve Banks are all 100% owned by the private banks in their districts. The national currency is issued as “Federal Reserve Notes,” which are lent or sold to private banks and bond dealers. Rather than issuing dollars, the U.S. government issues debt (bonds, bills and notes), which it sells on the open market to the bond dealers at interest.

President Wilson signing the Federal Reserve Act 1923 painting by Wilburg G. Kurtz; photo courtesy of Woodrow Wilson Presidential Library)

Today private banks rather than the government issue most of the money supply by creating dollars on their books as loans. That practice dates back to the post-civil-war era. Before the 1860s, banks printed paper promissory notes called "banknotes" that were redeemable in gold or "real bills" (promises to deliver goods in the future). These notes were then lent to borrowers. Real bills could not be leveraged, since they were specific to particular goods; but gold could be and was, leading to bank runs when customers doubted their bank's ability to repay all the claims against its gold. The National Bank Act stabilized that system by maintaining the value of National Bank Notes from state to state.

In an effort to get state-chartered banks to join the national banking system, the National Bank Act imposed a heavy tax on their banknotes. But many banks avoided the tax by replacing banknotes with checkbooks: the loan amount was just written into the borrower's account as a "deposit," and the borrower wrote his own promissory note in the form of "checkbook money." These deposits are counted in the money supply, and that is how banks now "create money" – nearly all of it.

FDR and the Reconstruction Finance Corporation

The Federal Reserve was supposed to prevent bank runs by providing reserves, but it obviously failed in that endeavor. The early 1930s saw the worst contagion of bank runs in history. Loose credit in the 1920s triggered speculative bubbles on leveraged borrowing; and when the bubble inevitably burst in the Crash of 1929, liquidation of assets was forced on the borrowers. Depositors rushed to withdraw funds, triggering runs; 9,000 banks failed; and $7 billion in deposits were frozen. The money supply shrank, yet the Fed did not intervene.

To stimulate the economy and restore jobs, FDR's government therefore reverted to Hamilton's "American System." The Reconstruction Finance Corporation (RFC), set up by President Hoover to save the banks, was repurposed and greatly expanded to leverage credit for manufacturing and development. Begun with a modest $500 million in capitalization, the RFC lent or invested over $40 billion from 1932 to 1957. It funded the New Deal and World War II and returned a net profit to the government of $690 million.

The RFC was not a depository bank and did not take deposits. For liquidity it issued bonds, most of which were bought by the federal government. The RC then made loans to local governments and productive small businesses at below-market rates. To repay the loans, cities that were over their general obligation bond limits issued "revenue bonds," repaid with the revenues generated by the works funded by the loans.

The RFC provided off-budget funding. According to James Butkiewicz, professor of economics at the University of Delaware:

> The RFC was an executive agency with the ability to obtain funding through the Treasury outside of the normal legislative process. Thus, the RFC could be used to finance a variety of favored projects and programs without obtaining legislative approval. RFC lending did not count toward budgetary expenditures, so the expansion of the role and influence of the government through the RFC was not reflected in the federal budget.

The Chinese Economic Miracle

Today the stellar model for infrastructure development is China, which went from one of the poorest countries in the world to global economic powerhouse in four decades. Among other achievements, between 2008 and 2019 China built 18,000 miles of high-speed rail, along with the world's largest dam and power station. How was all that funded? The government owns 80% of Chinese banking assets, including three massive "policy banks" designed to carry out the policies of the government. Government-owned banks fund the projects with credit, and fees generated by the projects repay the loans.

China Development Bank headquarters (Licensed under CC BY-SA 4.0)

Predominant among the policy banks is China Development Bank (CDB), the largest development bank in the world. It has a national network of local branches to coordinate policies and projects; but like the RFC, it does not take private savings. Rather, it issues bonds. CDB bonds make up 25% of the national bond market, second only to those of the Ministry of Finance (the Chinese Treasury). CDB bonds have a credit rating as high as the government's and are in high demand.

China's publicly-owned banks issued so much credit for infrastructure and development that its money supply (M2) actually grew 2900% in the last 27 years, yet hyperinflation did not result. Why? China's GDP shot up in tandem, keeping supply and demand in balance.

Development Banks to the Rescue

China's massive infrastructure development has been credited with pulling the world out of the Great Recession, and its current tack is to repeat that effort. In 2022, the Chinese government pledged the yuan equivalent of $120 billion to the policy banks for infrastructure funding to revive the economy.

We could do that too — revive the U.S. economy with a self-funding National Infrastructure Bank. H.R.4052, the National Infrastructure Bank Act of 2023, follows the Hamiltonian model. For capital, it proposes debt-for-equity swaps with federal bondholders, adding a 2% dividend on top of the bond payouts for enticement. The swap would be bonds for non-voting bank shares, which could be swapped back for the bonds after twenty years. Unlike the RFC, the NIB is proposed to be a depository bank, able to leverage its capital to create deposits as loans on its books. Cities could repay these low-interest loans with revenue bonds funded by the infrastructure they create, as in the 1930s.

Abundance is the hallmark of Thanksgiving, and affordable credit is the key to abundance. If we can duplicate the feats of Washington, Lincoln, and FDR, we can turn debt into equity for an infrastructure bank that generates low-cost credit for development and create an abundant economy we can be thankful for!

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This article was first posted on ScheerPost.

Ellen Brown *is an attorney, co-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 400+ blog articles are posted at EllenBrown.com.*

She is a regular contributor to Global Research.