injustice have not succeeded, and never will. But there is a great disparity between the two questions.

The land question cannot be solved in the absence of political will. Landowners have always managed to influence political decisions, either directly by being themselves in power, or indirectly by lobbying for tariff and other policies that sustain their rents.

The good news is that money reform, unlike land, can start from the grassroots. The 20 000-plus communities round the world are proving this before our very eyes. The moment they agree on the same standard, usury will become a historical curiosity.[45]

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[45] Elsewhere I have suggested the school teaching period as monetary standard.

MOVING MONETARY REFORM TO THE "FRONT BURNER"[1]

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Abstract

Entering the 3rd Millennium we face both great danger and opportunity. Unheard of wealth concentrates into very few, largely undeserving hands. Even in America, the richest country on Earth, people work harder and produce more than ever, yet increasingly fall into debt and bankruptcy, while predators plunder society by merely shuffling papers. Major corporations concentrate on profiting by misusing the money system, rather than with production. Such corruption is not sustainable or justifiable. The American Monetary Institute holds that the structure of the money system itself is at the root of the corruption and we promote reform to bring our monetary system into harmony with the nature of money. There is a growing awareness of the urgent need for reform away from privately issued money toward more public control of money systems; away from a religious adherence to questionable economic theory, toward

[1] (This paper is drawn from speeches by Director Stephen Zarlenga to the U.S. Treasury in December, 2003, titled *The Lost Science of Money – A Solution to the States Fiscal Crises*; to monetary reformers at England's House of Lords in May 2004, titled *The Lost Science of Money & Monetary Justice: Using Publicly Created Money to Fund Public Projects*; and to the Bromsgrove Monetary Conference in October, 2004, titled *The War of Private vs. Public Control of Society's Money Power – The Order of Battle: Adam Smith vs. Aristotle.* These talks can be read in full at http://www.monetary.org All quotations are fully referenced in my book: Stephen Zarlenga, *The Lost Science of Money: The Mythology of Money – the Story of Power*, hereafter referred to as LSM.)

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producing desirable human results. There's a growing recognition of the need for better methodology – drawing conclusions in part from experience and historical cases rather than isolated theory. Our task: to make monetary reform a primary goal of 21st century justice movements. It may not be easy, but think how fortunate we are, in a sense, to face such a worthy challenge.

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1. The Lost Science of Money: A Solution to the States' Fiscal Crises

The fiscal problem has its roots in the structure and control of our monetary system and I intend to show how that structure *has ultimately been based on a false or inadequate concept of the nature of money. The Problem is that money has not been accurately defined.*

Perhaps the chief failure of economics is its inability, from Adam Smith to the present to define or discover a concept of money consistent with logic and history. Economists rarely define money, assuming an understanding of it. It's still being argued whether the nature of money is a concrete power, embodied in a commodity like gold; or whether it's a credit/debit issued by private banks. Does its value come from the material of which it's made? Or is it, as we have concluded, an abstract social power - an institution of the law, having value because its accepted in exchanges due to the sponsorship of government? The correct answer leads to conclusions on the proper monetary role of government; whether the power to create and control money should be lodged, as at present in a somewhat ambiguous private issuer - the Federal Reserve System and its member banks - or should be wholly reconstituted within government. An accurate concept of money will light the way to solving the present fiscal crisis.

2. Money – The Human Struggle

A main arena of human struggle is over the monetary control of societies. It is exercised through obscure theories where corrupt interests have misdefined the nature of money to seize control of the money power, dominating society and deforming humanity in the process. *The money system is society's greatest dispenser of justice or injustice.* A good one functions fairly, helping create values for life. A bad, unjust one obstructs the creation of values; gives special privileges to some and disadvantage to others causing unfair concentrations of wealth and power; leading to social strife and eventually warfare and a thousand unforeseen bad consequences – physical *and* Spiritual.

As great power is exercised through money, power-hungry elements from ancient times to the present pursued the political ambition to dominate through the Money Power. Their main weapon has been the manipulation of language and thought, where definitions serve as heavy artillery. Those benefiting from the corruption see that "professionals" are financed to promote their viewpoint with economic "theories."

One reason economists have failed mankind so badly is their poor methodology – an over-reliance on theoretical reasoning. Alexander Del Mar the world's greatest monetary historian noted:

> As a rule economists...don't take the trouble to study the history of money; it is much easier to imagine it and to deduce the principles of this imaginary knowledge.[2]

This failure becomes staggering when combined with their reluctance to accurately define the terms of their theories.

This isn't new – in 1827 Malthus wrote a book to complain about poor *Definitions In Political Economy*, noting:

> It is quite astonishing that Political Economists of reputation should be inclined to resort to any kind of illustration however clumsy and inapplicable, rather than refer to money[3].

But then of the 60 "better" definitions, which Malthus presented, there was not a single one of money.

Aristotle's Science of Money

We can trace the money battle back to Aristotle's time and even then it was fought through control of language and media. He outlined a science of money still valid today:

> All goods must therefore be measured by some one thing...now this unit is in truth, demand, which holds all things together...but money has become by convention a sort of representative of demand; and this is why it has the name *nomisma* - because it exists not by nature, but by law or binding custom (which in Greek was *nomos*) and it is in our power to change it and make it useless (Aristotle, Ethics 1133).

[2] Del Mar, Alexander, *History of Monetary Systems* (New York: A.M. Kelley, 1978 [1895]).
[3] Malthus, Rev. Thomas, *Definitions in Political Economy*. London: J. Murray, 1827.

Aristotle identified money as an abstract legal power - a social invention. Its essence is not tangible wealth, but a power to obtain wealth – A crucial distinction. Plato agreed and advocated such fiat money for his *Republic***:**

> The law enjoins that no private individual shall possess or hoard gold or silver bullion, but have money only fit for domestic use. ...wherefore our citizens should have a money current among themselves but not acceptable to the rest of mankind....(*Laws*). Then they will need a market place, and a *money-token* for purposes of exchange. (*Republic*).

Aristotle outlines the science and Plato's writings are in full agreement. Moreover, we find these key principles actually employed in both Greek and Roman Systems. Aristotle explained that money is not a commodity. And in clear demonstration of that principle, the Spartans purposely destroyed the commodity value of their iron money. He explained that society can legally create the money and can also make it useless. In clear demonstration Roman law set the value of their fiat copper money and Rome decried some money as useless during the Punic Wars, demonetizing the copper money held by towns wavering in allegiance.

Plato's *Republic* explained how commodity money was to be restricted to foreign trade, and a series of Rome's coins are examples of that.

Here are two ancient cases from Greece and Rome based on Aristotle's *Nomisma* concept of money.

Lycurgus' Spartan Pelanors

Plutarch describes an example of nomisma in his discussion of Lycurgus of Sparta's 8th century BC monetary reform, aimed at a society where wealth had become overly concentrated. Lycurgus banned using gold and silver and instituted iron slugs called Pelanors for Sparta's money system. Furthermore those iron pieces were dipped in vinegar while hot, to render them brittle and to destroy *purposely* any commodity value that they had as iron! They received their value through legal sanction. This system of iron nomisma lasted about 350 years and Sparta became a premier power. Plato confirms that Sparta's iron money was rendered useless with the vinegar treatment, and remarked that it was based on the "Dorian System" possibly indicating the existence of an earlier tradition.

3. Republican Rome Used A Similar System

Rome isolated herself monetarily, basing her money on copper. This "disenfranchised" the gold/silver hoards and therefore much of the power of the East. While gold could still be traded in Rome as *merchandise*; without the monetary power, the ability of the East to control or disrupt Rome's money would be reduced and she had a better chance to control her destiny. Republican Rome used Aristotelian nomisma, where bronze discs were valued far above their commodity values. Under this money, she grew powerful, staying independent from the East.

When the U.S. rose to become the dominant world power, we didn't have this advantage of monetary isolation. But during the two great crises of our nation – the Revolutionary War, and the Civil War - we erected money systems independent of Old World Power: the Continental Currency and the Greenbacks. And though both have been severely criticized, they served our nation well.

Rome won the Punic wars**,** but her money system was destroyed in the process and she regressed to the metals systems of the East. First to silver, and then with the imposition of Empire, Julius Caesar established a gold standard based on the weight system of the ancient temples. The growth of plutocracy accelerated; wealth concentrated in its hands and the population degenerated into slavery. Adopting the East's commodity money caused power and even the Empire's headquarters to shift eastward to Byzantium. Economists misinterpreted the move to silver and then gold, as progress, but it really signaled the breakdown of an advanced system. Today one often hears moralistic warnings about Roman inflation destroying the Empire, but on closer examination, it appears that deflation was a much greater problem. There were several great causes for this, which we can discuss in the question period if anyone asks. (Weight of Bezant was constant. 1. No mining; 2. Only Pontifex Maximus could mint gold coins; 3. Silver continually draining East; 4. False concept of money as commodity)

The breakdown of law and money continued to operate negatively, the one upon the other for centuries, in a slow downward spiral of societal decay, especially in the West, where the administration couldn't stop the city of Rome from being temporarily overrun. In this context the concept of money regressed back to crude metallism. Even commodity money nearly disappeared in the Western dark ages.

4. Medieval Europe

Charlemagne attempted to re-institute money in the West around 800 AD. But minting his pennies depended on working slaves to the death in his silver mines (LSM, Ch. 4). When Charlemagne's Empire ran out of conquests and slaves, the money system faltered. This plunder/conquest/slavery basis of precious metals systems continued well into the 19th century. Modern 19th and 20th century moneys, claiming to be precious metals systems, depended on an element of fraud, as we will see.

Europe's Money Systems became more functional only after the plunder of the Americas. The total loot taken at gunpoint from the Indians from 1500 to 1700, was over 1200 tons of gold and 60,000 tons of silver! These amounts far overshadowed European supplies, and prices rose about 400 to 500% during that time.

The theft was their minor offense. Estimates place the Indian population under Spanish control at 32 million souls and in less than 40 years they killed about 15 million of them; working most to the death in silver and gold mines. For example, at a mine near Mexico City one report states:

> "For half a league round the mine, and for a great part of the road to it, you could scarcely make a step except upon dead bodies or the bones of dead men. The birds of prey coming to feed on these corpses darkened the Sun."

Spain did the dirty work on the ground, while England and Holland formed companies - privateers - to raid the Spanish fleets intercepting much of the loot. This was a *very rare* period where the supply of new gold actually kept pace with population growth. Historically it hasn't done this, and so a gold money system has usually been a formula for deflation. As this "blood stained money" entered Europe it had profound effects, forcing great structural changes in economies, distributing wealth more broadly and creating a "Renaissance of the North."

Books appeared instructing farmers. Invention thrived. The Reformation is usually given the credit for the dynamic developments this influx of new money helped produce in northern Europe (see LSM p.216).

This inflow of metal was good in some ways and bad in others. Of course it was bad in that its source was murder and pillage of millions of Indians. On the other hand great voyages of discovery were undertaken in the quest to find alternate routes to China, for the expected "cheap" gold that was to be found there. (See LSM Ch. 3, on the gold/silver ratio dichotomy between East and West)

In Europe it held back monetary thought in crude metallism much longer than would have otherwise probably been the case. This focused large amounts of resources ineffectively. Even so, the principles of the science of money re-emerged from time to time as in England's 1601 Mixt Moneys case, or the writings in Bishop George Berkeley's *Querest* in 1735, who pointed out the nature of money was more in the form of a "ticket" than tangible wealth. Berkeley also challenged the idea of a privately owned central bank and promoted the view that it should be governmentally owned. Locke and Franklin also wrote wisely on money and considered money to be a pledge for wealth rather than wealth itself (see LSM, pp 316-320).

But then in 1776, Adam Smith's *Wealth of Nations* took a giant leap backward and formally obliterated any concept of money in the law by misdefining money as quoted below:

> By the money price of goods it is to be observed, I understand always, the quantity of

> pure gold or silver for which they are sold, without any regard to denomination of the coin.[4]

The Battle Between Private Money and Government Money

Evidence of the fight over the money power is visible from Aristotle's time. His term for money –"nomisma" is seldom found in early Greek texts. It's in Herodotus in the 400s BC, but not again until Aristotle, over a hundred years later. We think the nomisma concept was suppressed in an ongoing struggle between the oligarchy - a kind of *private* "old Boy Network" - arrayed against *public* money, and the more democratic, public sphere of the Greek Polis, which introduced and controlled the new nomisma payment mechanism.

This *private vs. public* struggle has continued to this day:

- In Aristotle's Greece it was the Old Oligarchy vs. the Polis.
- In Rome it became the plutocracy versus Rome.
- In England it was the Goldsmiths vs. the Monarchy, representing society.
- Then it became the Bank of England Vs Society.

The Bank of England Had Usurped England's Money Power from the Crown in 1694, after Dutch William 3rd of Orange took over England. It signaled a recovery of the science of money, but it was organized privately for the power and profit of a small group instead of the whole nation. Recounting the stealth with which this "revolution bank," was formed, bank founder William Paterson remarked:

> The very name of a bank or corporation was avoided, though the notion of both was intended, the proposers thinking it prudent that a design of this nature should have as easy and insensible a beginning as possible…But it was found convenient to put it to hazard and expose so much of the nature of **the thing**…as was needful to have it espoused in Parliament.[5]

Until then England's monetary power was in the Monarch's hands. But from this point, bank of England credits – its notes and book credits – would be substituted in place of public money. This has promoted a confusion between credit, and money, to this day. But they are different things. Credit generally involves a promise to pay money but re*al money does not promise to pay something else. Money is the something else being paid.* Credit can legally be made into money, but it's not itself money. Money is on a higher order than Credit. It is unconditionally accepted as payment. "Credit expands when there is a tendency to speculation, and sharply contracts just when most needed to assure confidence…," wrote Henry George. Today economists are confusing the distinction between money and credit by referring to money as "high powered money" and referring to credit as "low powered money." But that is not the way to achieve more precise definitions in economics so sorely needed now. That mixes the concept of money with the features of credit and makes it easier for the issuers of credit to have their credits confused with a more suitable form of money.

[4] Smith, Adam. *The Wealth of Nations*. Great Books (Encyclopedia. Britannica, University of Chicago Press, vol. 39, 1952 [1776], p.20).

[5] Quoted in LSM, Chapter 11.

Those behind the Bank of England obscured the real source of the Bank's power – *its legal privilege – its notes were accepted as money by government*. Using the principles of money for such private purposes produced harmful results: 120 years of near continuous warfare, spawning an unpayable national debt, leading to excessive taxation which led directly to horrors such as the Irish Potato Famine. Before then, when a nation's money system was used for taxation, the revenue generally aided the society at least in terms of what a Republic or King thought was needed. But private moneys like the Bank of England's concentrated society's resources into a few hands, crippling the possibility for government to function properly, leading to a growing contempt of government.

Today the battle is still the bankers versus the society**.** In philosophical shorthand it can be expressed as Adam Smith, or present day Economics vs. Aristotle. *At base, the battle remains Private Money vs. Public Money*. The outcome determines whether the money system operates to serve the *few in control*, or the *whole society*.

What determines the outcome of the struggle?

It is determined by society's concept of money – its definition of money. I'll give a case study from American history shortly. Who controls the language will control the monetary power will control the society will influence the language, etc. Mankind can live under various forms of government from dictatorship to republic, but the best systems are those in harmony with human nature. Likewise many things can be made into money, but the best will be the ones in harmony with the nature of money. Remember: don't confuse money with tangible wealth. Yes, commodities can be improperly monetized by law, as when the U.S. was officially on a gold standard and the currency was exchangeable for gold coin. The result made the money system hostage to the commodities situation; hostage to the people, companies, countries that control the commodity. Ultimately it removed the monetary power from society and placed it into the hands of the wealthy.

And don't confuse money with credit – either private or public credit. Yes, private credits can be improperly monetized by law as in the United States, where bank credits are given special legal privilege through law, and are accepted by government for taxes and made legal tender also. But that gives great privilege to those whose credits have been monetized, to the detriment of the whole society. The money system then becomes an engine of injustice – as it is now.

Accountants have confused this by calling different things by the same name. When money is placed into an account, it can be recorded as a credit there, but that does not make the nature of money a credit. Monetizing private credit removes the monetary power from society and places it into the hands of the bankers. I ask you to make an effort to separate these concepts in your mind, and see where it leads you.

Today there is an effort to remove the concept of money entirely from our language and replace it with a concept of credit. That would make real monetary reform not only impossible but literally "unthinkable" because if the concepts necessary to think about money will no longer exist, then when people believe they are thinking about the concept "money" they will really be working with the concept "credit" in their minds.

Adam Smith vs. Aristotle

Adam Smith helped erect a Mythology of Money that has obscured the science of money. History and thought shows moneys essence to be an abstract legal power, but economists still argue whether it should be a commodity like gold; or a private credit issued by banks. *Economics has never properly defined money!* The "father of economics" himself - Adam Smith – promoted this confusion by attacking the legal concept of money in his definition:

> By the money price of goods it is to be observed, I understand always, the quantity of pure gold or silver for which they are sold, without any regard to denomination of the coin (see footnote 3).

Smith's primitive misdefinition of money as a commodity insinuated a mythology of money into economics in 1776, from which it has never recovered. He did this despite the work of Berkeley, Locke and Franklin, from 1729 to 1735, which more accurately identified money's abstract nature**.**

The Bank of England had advanced to abstract money; not in theory, but in practice. Their abstract notes and book credits became used as money, but *in theory* they insisted it was convertible to gold and silver. Smith regressed in theory from unlimited coinage (moneta) to ponderata – metal by weight – where the concept of money had been before the Romans arrived. His theory applied to their practice caused confusion and created mystery to this day. Interestingly, Marx did little better.

A priesthood of economists was recruited, trained and rewarded to promote the myths; ignoring the evidence to the contrary; disregarding its bad effects on the people. Thus the great 19th century English reformer Thomas Michael Sadler observed: "Economists are the Pests of Society and the persecutors of the poor."

The American Money Struggles Contain Many Of The Best "Case Studies" for understanding money. We have been a great monetary laboratory - every conceivable solution was tried at some time, and we've been a paper money nation from Colonial days. Our development was inseparable from it - without it there'd be no United States. English and Dutch laws forbade sending coinage to the colonies, placing them in continual distress. The intent was to extract raw materials, not for the colonists to trade with each other. An early form of globalization. The Colonies had to devise monetary innovations. *(LSM, Ch. 14 & 15)*. In the country pay period (1632 – 92) 17 different commodities were monetized by law at specified prices. It didn't work - everyone wanted to pay with the least desirable commodity, in the worst condition.

1633 - Virginia and Maryland monetized tobacco, issuing warehouse receipts for it. A bumper crop in 1639 meant that half the crop was burned and debts had to be reduced by 60%.

1652 – Hull's mint in Massachusetts stamped the gold and silver "tree coinage." But it quickly flowed to England and was melted down.

Private land banks were set up but were shunned by the colonists, who considered money a prerogative of government, as it was in England until 1694.

Then in 1690, 4 years before the Bank of England, Massachusetts embarked on a radical course and issued paper bills of credit, spending them into circulation. Rather than a promise to pay anything, they were a promise to receive them back for all payments to the commonwealth. The colony thrived. Other colonies copied them and *infrastructure* arose.

In 1723 Pennsylvania's system loaned the bills into circulation, charging interest on them and using it to pay colonial expenses. Ben Franklin wrote:

> Experience, more prevalent than all the logic in the World, has fully convinced us all, that paper money has been, and is now of the greatest advantages to the country.[6]

In Franklin's words, one detects a tension even then, between theoretical argument and practical experience, a continuing battleground in economics today.

Some long lost principles of the Science of Money quickly resurfaced:

* Money need not have intrinsic value; its nature is more of an abstract legal power than a commodity.
* Accepting the government paper back in taxes was the key feature needed to give it circulating value.
* The quantity of money in circulation had to be regulated to maintain its value.
* They observed that paper money helped build real infrastructure.
* *Most importantly, the colonies did not issue more money than their legislatures authorized. They have an outstanding record issuing currency.*

Of over a hundred colonial issues I found only one case of fraud. In Virginia, a Mr. Robertson who was supposed to be burning the old notes as new ones were printed, was giving them to friends instead.

But in the battle for monetary dominance the colonial monetary experience has been miscast as irresponsible inflation money. This was the result of 18th century Boston's medical Dr. William Douglas' inaccurate

[6] Franklin, Benjamin. *Modest Inquiry into the Nature and Necessity of a Paper Currency*. In Benjamin Franklin, *Writings* (New York: Library of America, 1987).

writings. The error was corrected by Alexander Del Mar in 1900 in *The History of Money in America*[7] but was ignored. It was authoritatively cleared up again by Professor Leslie Brock in 1976 in *The Currency of the American Colonies*[8]**,** and was again ignored. Many economists, especially the Austrians and Libertarians still haven't got the message that colonial government paper money was crucial in building the nation.

In 1764, England's Lords of Trade and Plantations prohibited all colonial legal tender issues, and that became the underlying cause of the American Revolution, not some tax on tea.

The Continental Currency became the lifeblood of the revolution. $200 million were authorized and $200 million issued. The Currency functioned well. In late 1776 the notes were only at a 5% discount against coinage, when General Howe took over New York City and made it a center for British counterfeiting. The British counterfeited billions; newspaper ads openly offered the forgeries; yet English General Clinton complained to Lord George Germaine:

> The experiments suggested by your Lordships have been tried, no assistance that could be drawn from the power of gold or the arts of counterfeiting have been left untried; but still the currency ... has not failed.[9]

In March 1778 after 3 years of war, it was at $2.01 Continental for $1 of coinage. The Continentals carried

[7] *History of Money in America*. c. 1900. Repr., NY: Burt Franklin, 1968.
[8] Brock, Leslie V. *The Currency of the American Colonies 1700-1764* (New York: Arno Press, 1975.
[9] Schuckers, J.W. *Finances and Paper Money of the Revolutionary War* (Philadelphia: John Campbell, 1874).

us over 5½ years of Revolution to within 6 months of its final victory. Thomas Paine wrote: "Every stone in the Bridge, that has carried us over, seems to have a claim upon our esteem. But this was a corner stone, and its usefulness cannot be forgotten.[10] Our Constitutional Convention considered two grand themes of humanity. First whether mankind could be self-governing or had to be ruled by authority, often referred to as the American experiment. We are still learning the outcome, and one of the reasons it's still in doubt is because of the way the Convention mishandled the other grand theme – and that is, the nature money. By the time of the Convention, the great benefits of the Continentals was nearly ignored; along with much of the rest of our hard won monetary experiences. Some wanted to emphasize that the Continentals became worthless and rejected the idea of paper money altogether. They ignored that paper money was crucial in giving us a nation; that abstract money requires an advanced legal system in place; that the normal method of assuring its acceptability is to allow the taxes to be paid in it. Then there was the matter of a *war* against the world's strongest power. Tom Paine said it best:

> ...But to suppose as some did, that, at the end of the war, (Continental Currency) was to grow into gold or silver, or become equal thereto, was to suppose that we were to get 200 millions of dollars by going to war, instead of paying the cost of carrying it on.[11]

The convention met from May to September 1787 but the money subject didn't come up until August 16. Remember, Jefferson and Paine were not there. Franklin

[10] See LSM, Chapter 14.
[11] Quoted in LSM, Chapter 14.

was too old to speak.A curious book on money appeared just then, written anonymously by Calvinist Minister John Witherspoon, – the only clergyman signer of the declaration of Independence. The book attacked Government money and promoted Adam Smith's view that only gold and silver are money. He stonewalled our hard won colonial monetary experience. The power for government to properly create money, long considered as a necessary part of sovereignty, was contained in 5 magic words – to emit bills of credit. This provision was already in the articles of Confederation, but the Federalists - the merchant/commercial interest, largely responsible for calling the Constitutional Convention in order to strengthen the national government, fought to exclude this monetary power, from the new government, arguing that it could not be trusted with it! Some of them intended to get hold of the power privately as had been done in England.

The Supreme Importance of the Concept of Money Now Becomes Evident: For if money is primarily a commodity, convenient for making trades, which obtains its value out of "intrinsic" qualities, then it could be viewed more as a creature of merchants and bankers than of governments. But if the true nature of money is an abstract social institution embodied in law – obtaining its value largely through legal sanctions, then it is more a creature of governments, and the Constitution had better deal with it adequately. Describing how a uniform currency is to be provided, controlled and kept reasonably stable, in a just manner. It was on this crucial question that the Constitutional Convention faltered. The delegates accepted Adam Smith's primitive commodity definition of money as gold and silver and didn't firmly place the monetary power into government, leaving it ambiguous. Later they'd argue over what they had done. But the power would still exist, since it is as important as the legislative, judicial and executive powers.

I am suggesting that the nature of human affairs requires government to have four branches, not three; the fourth branch to embody and administer the monetary power.

The Constitution trusted the people with the political power; but didn't firmly place the monetary power in their government. This (along with slavery) is the Original Sin of American Politics! As a result the power was left up for grabs. Alexander Hamilton wasted no time in "grabbing."

Martin Van Buren, 8th US President, wrote a great book on the Convention – *The Origin of Political Parties in the US.*[12] He spent time with Jefferson in Virginia and was given information and documents to pass on to posterity after his death. Much of the following is based on Van Buren's recounting of these in his book.

5. How Private Central Banking Started in America in Three Steps

The first step was not to define precisely the governments' monetary powers at the Constitutional Convention – leaving it ambiguous, as we have described above. The Second Step was the bond theft: The Constitution went into effect in late 1789. Van Buren described Hamilton's first move as Secretary of the Treasury, in 1790: "Hamilton assumed some $15 million of the state debts...an act...neither asked nor desired by the states, unconstitutional and inexpedient…" What was so bad about it?

"A large proportion of the domestic debt (was held by) the soldiers who fought our battles, and the farmers, manufacturers and merchants who furnished supplies for their support....When it became known to

[12] Van Buren, Martin. *Inquiry into the Origin of Political Parties in the U.S* (New York: Hurd & Houghton, 1867).

members of Congress, which sat behind closed doors, that the bill would pass...every part of the country was overrun by speculators, by horse, and boat, buying up large portions of the certificates for (pennies on the dollar).[13]

Madison, saw what was happening and tried to stop this unfair grab for money and attempted to have the law pay speculators less than the original holders, but he was voted down.

The Third Step**:** Hamilton and associates, having kept the monetary power out of government hands, moved to assume it themselves. The Bank of North America was the only bank in the US, formed in Pennsylvania on Tom Paine's initiative to assist the revolution. Arguing that it was only a state bank, Hamilton suggested it come forward if it wanted to alter itself for the national purpose. Curiously, the Bank took no steps toward this obvious increase in profit and power.

Hamiltons' Federalists quickly put through legislation to charter the First Bank of The United States, as a privately owned central bank on the Bank of England model. The Bank would be issuing paper notes not really backed by metal, but pretending to be redeemable in coinage, on the one condition that not a lot of people asked for redemption! They really did not have the coinage. The bank would do what they had blocked the government from doing! Print paper money.

Because Hamilton himself was not a swindler (he was married to one of the richest women in the U.S. from the Van Renselauer family of Kinderhook a few miles from our headquarters, and close to Albany) his actions have received less criticism than they might otherwise have. But Jefferson through Van Buren

[13] LSM, Chapter 15.

presents a convincing case that Hamilton's party – the Federalists – was totally corrupt, and that Hamilton himself believed in and fostered or at least allowed such corruption with the idea that corruption was necessary to "grease the wheels" of his system. The Federalists, as Van Buren discusses, were not acting on behalf of England, but were trying to set up and grab for themselves, the same instruments of privilege that existed in England, such as the Bank of England, England's private central bank.

Thus the real question in practice was whether it would be private banks or the government that would create paper money. Will the immense power and profit of issuing currency go to the benefit of the whole nation, or to the private bankers? That's always been the real monetary question in this country.

While gold and silver served as a smoke screen what the bankers really counted on, were the legal considerations of the money. They knew that all that was needed to give their paper-notes value, was for the government to accept them in payment for taxes. That, and not issuing too excessive a quantity of them. Under those conditions, the paper notes they printed out of thin air, would be a claim on any wealth existing in the society. And we see why the Bank of North America was not put forward for this purpose: the U.S. Government had owned 60% of it. Thomas Willing resigned the Presidency of the Bank of North America, to become President of the first Bank of The United States. Hamilton, in the bank legislation had specified that the U.S. government was to own only 20% of the new Bank.

Where did the money for 1st Bank of the U.S. come from? The $10 million share subscription for the banks' shares, was oversubscribed within 2 hours. Less than 1/10 of it was ever paid in gold. The rest of the payment was accepted in the form of bonds – *the very government bonds that Hamilton had turned from pennies on the dollar to full value.* That is, when earlier, Hamilton's move to raise the value of the old colonies bonds from near zero to full value, to be paid for by the U.S. government; now these same bonds were being used by the private speculators who had bought them immorally, to pay for their shares in the 1st Bank of the U.S.

So you see where the money for the private bank actually came from – from the American people. Even if the bank had "faithfully" stuck to gold and silver, the nation's monetary power would still have been alienated to the east - to the European holders of those commodities, since they held the gold and silver. Same people we'd just fought the revolution against! Thanks to Jefferson's efforts, the bank was liquidated in 1811. Three quarters of it was found to be owned by Europeans – English and Dutch.

The 2nd Bank of the U.S operated illegally from inception, accepting IOU's instead of the required gold in payment for its shares. So again the banker's gold "requirement" turned out to be a masquerade. This private central bank immediately embarked on a wild monetary expansion. Beginning operations in April 1817, by July it had 19 branch offices and had created $52 million in loans on its books and an additional 9 million in circulating currency, based on gold and silver coin reserves of only $2.5 million. This tremendous expansion caused a wild speculative boom. Then in August 1818, the bank turned abruptly and began an insane contraction, causing the panic of 1819. It cut its outstanding loans and advances from a high of $52 million, down to $12 million in l819. Its circulating notes dropped from $10 million to $3.5 million in 1820. A massive wave of bankruptcies swept the nation.

The subsequent history of this bank and its fight to the death with President Jackson reads like a financial soap opera. It fought viciously against President Jackson who then removed all government funds from it. Eventually it was destroyed in a cotton trading scandal and the Banks president was indicted but not convicted for losing shareholders funds. The story of various state-chartered banks is similar.

Meanwhile the U. S. treasury acted responsibly: in the aftermath of liquidation of the first and second Banks. With the bankers temporarily defeated, US Treasury notes were responsibly substituted in place of banknotes. The treasury issued them and spent them into circulation for government expenses. About $65 million were authorized and only $37 million actually issued. Initially they were all large denomination, paid interest; were redeemable in gold and required formalities to transfer. By 1815 they became bearer certificates with no redemption date; paid no interest and were in smaller denominations. Thus they were nearly a true money form. The fact is that the US government has always acted responsibly in creating money. Not so the private banks!

6. Private Versus Public Control of Money

A Science of Money shows that issuing money belongs in the hands of the nation to be used for the common good. A Plutocracy counters with a mythology: the slur that government, the organized expression of our society, can't handle it. Centuries of propaganda raise the fear of inflation and abuse under government money, even though the record shows much greater monetary abuse by private systems. In this campaign they still advertise the 700-year-old cases of monarchs "debasing" their coinage, but *never* give the context that this period occurred after the collapse of European monetary order with the fall of Byzantium in 1204. Not mentioned is that much of the kingly alterations were a necessary form of taxation, or that Republics fared much

better than monarchies, or that private bankers caused greater problems.

As an island community **England**'s Kings did pretty well on money.

In 1346 Parliament tried to gain control over money but was refused. In 1414 Parliament tried to get veto power on money but was again refused. Breckenridge thought parliament failed because the English King's long standing monetary prerogative had been used responsibly. Shaw's History of Currency, written in 1896[14], could identify only one case of monarchical coinage irresponsibility: "This instance of debasement (1545-46 under Henry VIII) is the only one on record in English currency history," he wrote, and it amounted to a grand debasement of about 15%!

Fifteen percent? What is the big deal? If your mental impression of that case is a lot worse, it shows how effective the propaganda is. The distinguished conservative journalist Henry Hazlitt epitomized this modern day reigning error on money in his introduction to Andrew Dickson White's essay, Fiat Money Inflation in France, a classic attack on government: "(The) world has failed to learn the lesson of the Assignats. Perhaps the study of the other great inflations - of John Law's experiments with credit in France;…of the history of our own Continental currency …; of the Greenbacks of our Civil War; of the great German inflation that culminated in 1923 - would help to underscore and impress that lesson. Must we, from this appalling and repeated record, draw once more the despairing conclusion that the only thing man learns from history is that man learns nothing from history?"[15] Hazlitt really believed history

[14] Shaw, W. A. *The History of Currency,1252-1896* (Putnams: New York: A.M. Kelley, 1967 [1896]).

[15] White, Andrew Dickson*. Fiat Money Inflation in France* (New York: Foundation For Economic Education, 1959, Introduction).

backed up his viewpoint, but it doesn't, when one bothers to look.

Let us take a look. First, let us turn to the Continental Currency of the American Revolution. We have already mentioned that $200 million were authorized and $200 million issued; that they functioned well until Britain counterfeited billions of them! If you ever find out how many, please let us know for the record. Newspaper ads openly offered the forgeries. Even so the Continentals carried Americans to within 6 months of final victory and gave us a nation.

France's Money System was brought down by John Law a fugitive Scottish gambler. But Law's operations were structured as private companies despite his recommending governmental structures. After an initial widely hailed success in 1720, his main focus became raising the price of the private company shares. Law's system was thus largely a failure of private money speculation. Thus it is not correct to blame this incident on government money. Law really was a person of substantial intellect and monetary understanding, as evidenced in his initial 1720 success in alleviating France's monetary problems: he thought he could make a fortune, while helping France at the same time. From a harsher, more polemical viewpoint the obvious lesson here is that it is not a good idea to turn your nation's money system over to a professional gambler wanted for murder in his home country.

In France, government-issued paper, the so-called Assignats, were distributed since 1789, but in a society already ruined by aristocratic extravagance and revolution. In the money battle White's short book *Fiat Money Inflation in France* is a major propaganda weapon against government money and is direct evidence of how the battle is fought. But the book was written in 1876 during the Greenback battles, 100 years after the Assignats, in order to block the Greenbacks.

Stephen Dillaye writes us that White, whose inherited fortune arose from banking, neglected to mention among other things, that Britain counterfeited far more Assignats than the French ever created. This was documented in English court cases where the counterfeiters sued each other! White's book has somehow been continuously kept in print by conservative foundations, the latest being the Cato Institute; Dillaye's important essay, out of print for 125 years is quite rare but we managed to find one, and will reprint it.

Well, surely **Germany**'s 1923 hyperinflation condemns government money!

No, actually that occurred under a privately owned and privately controlled central Reichsbank. The underlying dynamics of this extraordinary phenomenon were complex, and intimately determined by the political (foreign) reshaping of Germany after her defeat in WWI; the triggers of this monetary explosion were in fact connected to the financial legacy of the war's financing and the devilries of the Allied policy of reparations, a discussion of which would lead us too far afield. At any rate, it may of interest noticed that the hyperinflation (50 percent price increases per month) accelerated when the May 26, 1922 law was put into effect, removing all governmental influence on the Reichsbank and placing it entirely into private hands at the insistence of the occupation forces. This period marked the beginning of the runaway depreciation of the currency, which would unleash a year and half later the wholesale flood of the Mark into nothingness. The Reichsbank Governor that came after the flood, Hjalmar Schacht, reminisced that in July 1922 it was 300 marks to one dollar; in November 1922 it was 9,000 to one; in January 1923 it was 49,000 marks to one dollar; in July 1923 it was 1.1 million marks to one dollar. Eventually it was stabilized on November 20, 1923 at 4.2 trillion Marks to one dollar.[16]

Do you see the pattern that emerges from these monetary fiascos? Do you see that the Austrian School is not relating the real facts on these cases?

The American Greenbacks. Liberal catechism has always told us through it textbooks that the Greenbacks were nothing but the fruit of fraudulent politics, worthless inflation money. The Brits sent over "experts" to attack the Greenbacks. Like Walter Bagehot and the former mental patient Bonamy Price (who was given Thorold Roger's professorship at Oxford, after Rogers was booted out for statistically proving that Englishmen were in a dreadful declining economic condition for over 300 years).[17] Bagehot condemned the Greenbacks and the United States: "So far from its being an economic act which governments do for the benefit of their subjects it has been a political act which they have done for their own sake." [18]

This anthropomorphic view of government - pretending the government has desires and attributes like a person, is an essential element of the financiers' attack of their main potential opponent - our government. While this anthropomorphism is nonsense, it serves to smear government as being "motivated" to abuse the monetary system, *the way for example that private bankers are.*

But again, on examination of the facts, the case against the Greenbacks doesn't stand scrutiny. There were $450 million authorized and $450 million were printed. Counterfeiters couldn't duplicate the

[16] Schacht, Hjalmar. *Stabilization of the Mark* (London: George Allen & Unwin, 1927), and *The Magic of Money*. (transl. P. Erskine) (London: Oldbourne, 1967).
[17] See LSM, pp 490-91.
[18] See LSM, Ch.17.

Greenbacks. Every Greenback was eventually exchangeable (unnecessarily) one for one with gold coin. The Greenbacks were our best money system to date.

But Greenbacks were not promises to pay money later – they were the money. Since they were not borrowed, they did not give rise to interest payments and did not add to any national debt. The U.S. Treasury printed them and spent them into circulation. Neither should they be called "public credit" a near meaningless term when used to describe money. For the government is not really a debtor to the holder of such money, except in the guarantee to accept the money back in taxes. That is not a normal creditor/debtor relationship implied by the term "public credit." Knowledgeable reformers – Congressman Benjamin Franklin Butler – apparently aware of this conceptual problem referred to them as "certificates of value" – *money* is the better term!

Senator Howe wrote:

> The Government may be able to borrow from the banks, but the Government cannot borrow coinage of the banks…but (only) their promises to pay money. ...We must rely mainly upon a paper circulation; and … that the paper, whoever issues it, must be irredeemable. All paper currencies have been and ever will be irredeemable. It is a pleasant fiction to call them redeemable…I would not expose that fiction only that the great emergency which is upon us seems to me to render it more than usually proper that the nation should begin to speak the truth to itself; to have done with shams, and to deal with realities. [19]

[19] Ibid.

To have done with shams and deal with realities – sometimes that requires a crisis, to activate us. And what if instead of being spent on destruction, the Greenbacks had gone into building infrastructure, and canals and roads? Spending such money on infrastructure need not be inflationary. The great lesson of the greenbacks is that in times of crisis - *and other times too* - our nation has Power to do what's financially necessary. We don't have to beg or borrow from the wealthy and create an astronomical national debt; or tax the middle class into oblivion, or cancel necessary programs. We can use the nations' sovereign money power far more than we presently have been allowed to realize.

The struggle between private versus public control of money continued through the rest of the 19th century. The Greenbacks continued to constitute about a third of our money supply. Generally the private money power dominated. But in periods when the government exercised control an excellent record was established – *superior to that of private control.* The bankers continued their pretense that gold was the essential nature of money, and even the Federal Reserve in 1913, appeared to be gold-based. But immediately upon inception, we were pushed into warfare and within 20 years Americas' farms, cities, exchanges and money system were all wrecked, ending in the great depression. It was again left to our government to rescue the nation. It's forgotten today, but the Thomas Amendment passed with legislation in 1933, gave the President the power to create $3 billion in new Greenbacks, if the banking system didn't co-operate.

7. The American Money Scene Today: Reform Proposals and Ideas

It must be stressed that many monetary reformers in America are not aware of the nature and history of money and monetary battles, summarized above and fully described in my book, *The Lost Science of Money*, from which this historical excursus is drawn. Bombarded by plutocratic propaganda for centuries these reformers don't realize that government or publicly issued money actually has a superior record compared to privately issued money. As a result, some of their reform proposals move backward to already tried and failed systems rather than forward toward true progress. *But all those who devote their energies to improving our system are strongly commended*; and at the same time are urged to make sure they are not serving to entrench the monetary miscreants. Let us take a brief overview of four groupings advocating reform**.**

8. A Gold Standard Reform

This type of proposal demands, as in the past, that money be backed by gold or other ('scarce', naturally) commodities. The supporting faction is composed largely of people involved in gold mining or coin investments, conservatives, and some fundamentalist religious folk, in an unlikely alliance with more atheistic Austrian-Libertarian elements. Those who are investment oriented miss the point that whatever makes gold interesting as an investment, makes it unsuitable as money. The 'goldbugs', as they are often labeled, have failed to comprehend the abstract nature of money. Succumbing to centuries of propaganda, they are confusing money with wealth. But history shows that the so-called gold standard has been a shell game and a ruse. Over and again it has been a method of concentrating special monetary privileges into the hands of a banking plutocracy. The misinformation being spread today that it helps the common man because it stops inflation, is wrong. First as pointed out in LSM it does not always stop serious inflation.

Second, labor has suffered far more from deflation or restriction of the money supply than from inflation, and a metallic based monetary system has generally been a formula for deflation. Under deflation, it's not labor, but those with money or to whom money is owed, who automatically benefit without giving anything in return. Those in debt are harmed because they must repay it in more valuable money. As the industrialist producers in a society are often large debtors; industry is thus harmed and this harm is passed through very quickly against labor.

Experience shows this tends to happen under a gold standard because gold production has almost never kept pace with population growth, let alone industrial and commercial needs except briefly from 1500-1650 when gold and silver were being plundered at gunpoint by the fleet load from the Americas.

Some Austrians argue that one need only change (raise) the value of gold and any amount of gold can then be the base of the worlds money systems. But that ignores that those in debt will be unfairly harmed by such rises in the value of money. There seems to be an unspoken assumption that debtors are freeloaders deserving of such punishment.

Thus the usual way to avoid deflation with a gold standard, is by not really having a gold standard and creating leveraged amounts of paper money credits, or book credits based on smaller amounts of gold; making the promise of convertibility a fraud, instituting special privileges for bankers and subjecting the monetary system to panics and crashes. One of the things we learned from the Great Depression is not to do that

again. And remember, to advocate that money must be a commodity or backed by a commodity is to destroy the distinction between money and wealth. The very concept of money, and its societal basis in law is undermined. The control of such a money system remains in the hands of those with the wealth - by definition, the plutocracy.

The Austrians/Libertarians must exercise more care and go beyond a commitment to ideology and theory; to consider that the real world effects of those views do not usually turn out as advertised. They have mostly aligned themselves with the gold faction or with Hayek's free banking notions (see below).

It should be mentioned that there is an observable geopolitical move presently afoot, promoted in part by western elements, to mislead the Islamic world into gold-based money, and some Moslems are taking the bait. This supports the present moves promoting centuries of future warfare with the Moslems. It is happening despite the fact that the Prophet Mohamed expressly told his followers to honor fiat money.[20]

9. A "Free-Banking Monetary" Reform

The present day call for free banking is among the least informed and most arrogant of monetary reforms yet put forward in our nation. It seems that to promote an idea without real examination today all one has to do is put the word "free" into its name. The term "free banking" is vague, because its supporters have not uniformly defined it. We take it to mean a system where bankers are allowed to create the money supply in the form of their credits, or notes, which are allowed to circulate without restriction or regulation, to the extent that the

[20] See pages 623-627 in LSM.

markets will allow. But isn't it really up to these advocates to define their own terms?

The strident anti-government attitude of many of those promoting free banking has created a prejudice in them to view all regulation as bad and, contrary to the lessons of history, to place their trust in the bankers to act honorably! But to promote free banking requires that one dismiss the universal historical condemnations of it by expert observers such as Gouge, Knox, Raguet, Bullock and Sumner, to name a few. The 19th century reformer Henry George observed that: "The evils entailed by wildcat banking in the United States are too well remembered to need reference… and no-one would now go back to them."

Now 150 years later along come the free bankers who assure us that he and the other observers were wrong. Why? Because their theory tells them so! This modern "free banking" movement was spawned by Hayek's essay titled *Denationalization of Money,*[21] which was mainly an attempt to throw a monkey wrench into the early plans for the Euro, and is really an affront to serious monetary thought. Here are some of the problems with the free bankers "arguments":

1) They have misread history as is clear from their mislabeling the American "free banking" period as 1836 to 1864, when it was mainly pre-1836. They make this huge mistake because the New York law in 1836 that imposed much greater legal restrictions on banking, was called a "Free Banking Law." Naturally the post 1836 period gives better banking results, but anyone can see that its a period of greatly increased government regulation, which required real reserves, better supervision; double liability for bank shareholders; diversification of loans, etc.

[21] Hayek, F. *A. Denationalisation of Money*, *The Argument Refined* (London: Institute of Economic Affairs, 1978).

2) They have disregarded as "anecdotal," the universal condemnations of free banking by expert witnesses. One can't ignore these indictments from highly qualified observers from across the political spectrum. For example John Jay Knox, Controller of the Currency and generally friendly to banker interests wrote in the official 1876 Treasury report: "The history of banking in the various states before the (civil) war will make plain to anyone that the note issuing privilege was much abused to the great detriment of individuals and the public. Banks were started for the sole purpose of foisting worthless notes upon a trusting public….The idea that the government should issue the paper money, as well as coin the gold and silver has taken a firm hold of the American mind."

3) They use extremely poor logic. For example they think they have logically "proved" that bankers will be honest, because in the long run it is good for business. That is mind-boggling and demonstrates gross ignorance of history and of business ethics in particular. I'm purposely gruff with the Austrians and Libertarians, because its what their viewpoint deserves. They have gotten away with it so far only because of the general ignorance of monetary history which allowed them to substitute a fictitious "theoretical" history, as Menger and the "free bankers" do.

4) They treat the banks statistically as if they were deposit institutions, but they were always banks of issue. Partly because statistics on the banks are very patchy, they have focused on certain measures which cannot convey a full and accurate picture of banking.

5) They ignore the stock fraud in bank shares, that always accompanied banking, etc, etc, etc. Recent history of the crash of 1929 indicates losses through

stock markets, from a banking created crisis was about 40 times as much as the direct losses in bank deposits.

In *The Lost Science of Money* I go into considerable detail on all these and additional points, because I feel it is important to expose this destructive movement by describing it objectively. *It is interesting that the great 19th century reformer Henry George also saw through the Austrians*, when he wrote in the Science of Political Economy:

> What has succeeded (in place of the classical school) is usually denominated the Austrian School…If it has any principles, I have been utterly unable to find them…This *pseudo*-science gets its name from a foreign language, and uses for its terms words adapted from the German - words that have no place and no meaning in an English work. It is indeed admirably calculated to serve the purpose of those powerful interests dominant in the colleges…that must fear a simple and understandable Political Economy, and who vaguely wish to have the poor boys who are subjected to it by their professors rendered incapable of thought on economic subjects…the volumes for mutual admiration which they publish…[22]

Later, Colonel E.C. Harwood, a twentieth century Georgist, and founder of the American Institute For Economic Research, carried forward this criticism of the

[22] George, Henry. *Science of Political Economy* (New York: Schalkenbach, 1992. Also see my essay on George and money at http://www.monetary.org/henrygeorgeconceptofmoney.htm).

Austrian School method, calling it "A LEAP BACKWARD" (headline):

> Dr. Von Mises denies not once but several times that his theories can ever be disproved by facts. This point of view represents a leap backward to Platonic Idealism or one of its offspring in various disguises.[23]

10. Advocates of "Local Currencies"

These are normally well-meaning attempts to remedy the shortage of national currency that undeniably exists in many localities. "Currency" is placed in quotes because these alternatives don't really rise to the level of currency in the sense that we use the term, but are more in the form of bartering or credit/debit payment arrangements. These systems can be traced back to Josiah Warren, the originator of the Labor Exchange idea, put into practice by Robert Owen in London in 1832 after a very tight money period. Mainly they enable participants to trade their labor, and some other items, with each other, without using the national currency.

The problem is that while these local systems do no harm and can help alleviate local cash shortages, they have been of very limited benefit; have usually required substantial self-sacrifice in terms of time and energy from those who have managed to keep them functioning; and have therefore generally soon ended. They will continue to be so limited until they can qualify as a *more true money form*. That is, in order for them to work more effectively, taxes (at least local taxes) have to become payable in such currencies.

[23] E.C. Harwood & Others; *Useful Principles Of Inquiry* (Behaviourial Research Council, 1973, Great Barrington, Mass., p.211).

We've made this suggestion to those interested in alternative "currencies," but there seems to be a mindset against involvement with government among some promoters. However the great uphill task these localized efforts face, plus continuing research will bring them to the realization that government per se, is not the enemy and seek alliances with government bodies. In that process one would expect that the taxing bodies would become involved in the issuing process.

Those who see their "calling" as advancing local systems should be alert to the possibilities open to them through a fuller understanding of the essential nature of money. To that end, the American Monetary Institute always stands ready to work with local currency devotees. A multi-faceted approach toward monetary progress, where various people do what they do best, has advantages. In addition it is possible that even after a sound national reform program is enacted, there may still be need for local adjustments. If that proves to be the case, our thinking at present is that local "strings" could be attached to a reformed national currency; strings designed for example, to help keep money circulating in local areas, and not just flowing back to money centers. Local activists are always welcome - and invited - to participate in fleshing out such "strings."

Unfortunately the bigger picture with such local currencies that must be stated and faced, is that even if they are made practical to use effectively, they do not stop the continued mismanagement of the monetary system at the national level. Localized systems can't stop the dispensation of monetary injustice from above through the privately owned and controlled Federal Reserve monetary system. And ending that injustice must really be a monetary priority.

In addition to this limitation, there are two potential dangers of local currency movements. First, they might distract otherwise concerned citizens from an

understanding and a helpful participation in achieving national reform. Second they should beware of an agenda to mix local currencies efforts with Austrian/Libertarian free banking agendas. *Free banking, as we have indicated has already been tried and found to be among the poorest type of private money systems.* Furthermore this "free market" element actually agitates against the idea of reforming our unjust money system. This argument does not stand the common sense test. American money is and will remain a national item. To attack the idea of improving and reforming it is silly and not a point worthy of argument. What a gift to hand to those abusing the American people through our unjust, privatized money system!

11. Reforming the Federal Reserve System

Fortunately this is a monetary reform that can reach the goal for the nation to control its own money system. This is our best and most direct course of action - the real thing - and it could happen this way: In the next, (*or the next*) crisis created by the banking system, instead of bailing them out as usual at public expense, if there was enough awareness and public support, our government could nationalize the Federal Reserve; as England nationalized the Bank of England in 1946. Several past Chairmen of the House Banking Committee, including Rep. Henry B. Gonzales, introduced similar legislation over the years. The Proposed reforms of the American Monetary Institute:[24] First, nationalize the Federal Reserve System. Reconstitute it in the US Treasury, to evolve into a fourth branch of government. Only the government would create money. What would such government money look like? Well you have some in your pockets right now. Coin vs. Paper Money. Both are

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[24] Abbreviated from LSM Ch. 24.

fiat moneys, but the coins are minted debt free and interest free by our government.

Second, remove the privilege which banks presently have to create money. This is done through an elegant process which automatically turns all the previously issued bank credit into real American money. 100% reserves are reached not by calling in loans but by increasing reserves with the U.S. loaning freshly created money at interest, to the banks. This is very different from simply demanding 100% reserves, which would wreck the economy. It would not be inflationary or deflationary, but would simply make real, what had been thought to be the monetary levels.

Third, institute anti-deflation programs for automatic, constitutionally determined government money creation, starting with the 2 trillion $ which the American Society of Civil Engineers estimate we need to bring our infrastructure up to acceptable levels. From there we go forward carefully determining how to best run the monetary system, and thoughtfully use Aristotle's method, *we learn by doing*. What difference would reconstituting the money power in government make? Government money goes into infrastructure; better life; better jobs; education, safer roads, cleaner water; better health care; social security, etc. Society is empowered by being able to direct the money power to solve pressing problems rather than into useless speculation. We no longer have to say we can't afford it, when so many people and resources are unemployed!

These three reforms can be closer than we think; and in a crisis situation if only 5% of the citizenry has an awareness of the societal/legal nature of money, they could be enacted. Such reforms don't happen in a vacuum. Progress is needed to correct erroneous but pervasive attitudes - mythologies really - of today's' economics. We therefore summarize four destructive thrusts of Adam Smith/Economics to beware of: The Money "error, the Attack on Society/Government; the Smithian Free Trade Trap; and Smith's Selfishness Assumption.

12. The Attack on Government, Humanity, and Society

Beneath the battle of public vs. private money, there really lies an attack on government, which cannot be separated from society. This is especially important in monetary matters because we find that the modern 250 year attack on government originated largely in Adam Smith's efforts to keep the monetary power within the Bank of England Smith glorified the Bank and obscured its private ownership saying it functioned as "a great engine of state." He attacked government issued money.

> A revenue of this kind has even by some people been thought not below the attention of so great an Empire as that of Great Britain...But whether such a Government as that of England - which, whatever may be its virtues, has never been famous for good economy; which, in time of peace, has generally conducted itself with the slothful and negligent profusion that is perhaps natural to monarchies; and in time of war has constantly acted with all the thoughtless extravagance that democracies are apt to fall into - could be safely trusted with the management of such a project, must at least be a good deal more doubtful. (Adam Smith, *Wealth of Nations*; p.358 – in the Great Books collection, vol. 39).

Smith's insulting attacks on the English Government marks the modern beginning of a relentless attack on society - the belittling and smearing of its organizational form - government. *The single organization potentially able to block plutocracy's encroachments.* Smith also inadvertently illuminates the major purpose of this attack: - to keep the money power in private hands.

Every day in America we see examples of how this disease has reached epidemic proportions. It has spread from the Austrian economists, and Hayek and Ayn Rand (the Muse of our Fed Governor, Alan Greenspan) to their intellectual heir Rush Limbaugh and his propaganda radio. Moreover we find that the fraudulent attack on government money is also at the base of sources of the "freedom diversion" as practiced by many Libertarians. An example is how Robert Nozick launches his *State, Anarchy, Utopia,* one of the Libertarians' bibles, on Menger's false notion of the Origin of Money.[25] [26]

13. The Free Trade Trap

In addition to Smith's Monetary Error and his Attack on Government/society, there is what's been referred to as "the Smithian Free Trade Trap." To understand this trickery as it relates to international trade, now

[25] This "origin" was originally put forward (in "modern" times) by John Law in his book Money and Trade Considered. Law was blamed by many for bringing down France's money system in the early 1720s. Carl Menger, the founder of the Austrian School of Economics, resurrected Law's theory in his Principles of Economics (1871). Despite its name, this school is primarily active in the U.S. Their ideas have been taken up in late 20th century America by the Libertarian political party. For example, Robert Nozick used Menger's "Origin" to launch (p.18) his book, *Anarchy State and Utopia* (New York, Basic Books, 1974), one of the Libertarians' 'sacred texts'.

[26] Menger's theory is an example of Austrian monetary illiteracy, as shown in AMI Research Paper # 1 titled *A Refutation of Menger's Theory of the Origin of Money*, which is available from http://www.monetary.org.

Globalism, one simply must read Frederich List's *National System of Political Economy*.[27] List showed that while England aggressively promoted Smith's "free trade" ideas to other countries, she pursued a very different policy herself, which was to import raw materials and apply mechanical power to them in a production process. England was thus applying the principles of the industrial revolution, but tried to hide that fact from other nations.

The "Freedom" Mantra is now placed on all sorts of doubtful practices to cleanse their image and shield them from closer scrutiny. For example, the Iraq horror is officially termed "Operation Enduring Freedom." By labeling any activity, however criminal, with the word "free," you are expected to kneel and worship it. "Free Market" Worship shows itself to be more a religion to be obeyed, rather than an economic policy to be analyzed and critiqued. The market is held to be omnipotent, omniscient, and beneficial – the three attributes of a deity. A strange deity that abhors morality; served by an Austrian/Libertarian priesthood that confuses Ayn Rand novels with historical experience. One of the reasons I come down so hard on the Libertarians is that considering the educational opportunities they have received, we should expect much better from them. It's a stylistic two by four across their heads to draw their attention to their methodology problems.

The "Free Banking" Movement is one example and we have already discussed it above. There's now a danger that the Austrians will try to channel local currency advocates toward a form of free banking. We have already been down that dead end road, and it would be a shame to divert otherwise healthy people into wasting energy there.

[27] Available on AMI's website.

14. Adam Smith's Selfishness Error

Finally, regarding the moral fallacy of Smith's "selfishness," Henry George noted: "Dr. Buckle's understanding of Political Economy was that it eliminated every other feeling than selfishness. Wherein Smith 'generalizes the laws of wealth, not from the phenomena of wealth, nor from statistical statements, but from the phenomena of selfishness; thus making a deductive application of one set of mental principles to the whole set of economical facts. He everywhere assumes that the great moving power of all men, all interests and all classes, in all ages and in all countries is selfishness…indeed Adam Smith will hardly admit common humanity into his theory of motives.'"[28]

Consider the negative impact on humanity of Smith's selfishness assumption: if Man is defined in such a base manner and systems of laws with their rewards and punishments are enforced along those lines, then over time, they will tend to create a form of humanity in "harmony" with their false concept of an economic mankind.

This de-evolutionary process, encouraging a lower form of humanity has been ongoing especially in the English-speaking world for well over two centuries. The work of great English novelists such as Charles Dickens may have slowed it, but didn't stop it. Henry George saw exactly where it would lead:

> Nor can we abstract from man all but selfish qualities in order to make as the object of our thought…what has been called 'economic man', without getting *what is really a monster, not a man.*[29]

[28] George, *Science of Political Economy*, 89, 90.
[29] Ibid., p 99 (emphasis added).

George substituted a different concept for Smith's destructive error: "The fundamental principle of human action … is that men seek to gratify their desires with the least exertion."[30] Then taking a giant step, he poetically described the essence of humanity: the "Force of Forces**":**

> It is not selfishness that enriches the annals of every people with heroes and saints… that on every page of the world's history bursts out in sudden splendor…that turned Buddha's back to his royal home or bade (Joan of Arc) lift the sword from the altar; that held the Three Hundred (Spartans) in the Pass of Thermopylae, or gathered into Winkelreid's bosom the sheaf of spears…Call it religion, patriotism, or the love of God - give it what name you will; there is yet a force which overcomes and drives out selfishness; a force which is the electricity of the moral universe; a force beside which all others are weak…I call this force destiny toward human nature - a higher, nobler nature than we generally manifest…And this *force of forces* - that now goes to waste or assumes perverted forms - we may use for the strengthening, and building up, and ennobling of society, if we but will…"(P&P, 463)

[30] George, Henry. *Progress and Poverty*. New York: Schalkenbach Foundation, 1992; p. 203.

15. Conclusion

Look around yourselves and you will see evidence that Henry George was correct. All of you could have probably found easier ways to achieve profit and or power; comfort and or repose, than the life tracks you have chosen. I'll guess that a main factor in your choices has been a reaction to the need for justice, not merely utility in human relations. We need to spread that worldview and basis for human action, by giving proper respect when we see it in others; in our writings and talks and relations. And always remember that morality and greater fairness in society are ultimately highly utilitarian. People do (and should!) react to being treated honestly. The ramifications for their society means that justice, in particular basing our money systems in fairness, is a highly useful policy. In this process we can give those who presently obstruct human development for private gain, what they've denied to the rest of us, we can give them justice too.

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Toward a Non-capitalist Market System: Practical Suggestions for Curing the Ills of Our Economic System

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Abstract
The paper focuses on the reform of economic institutions –those of the market mechanism and the financial system, in particular. After introducing the analysis with an historical excursus on the development of economic institutions, the intent here is to propose significant modifications of the present market and financial establishments, which despite their radical flavour, will be shown to be, in fact, no less pragmatic than indispensable to cure the economic maladies of our age. Throughout the modern times, all spokesmen of powerful institutions –e.g., churches, governments and economic elites—have always been keen to recognize in principle that these bodies are never perfect, and that societies assuredly need to take a step back, so to speak, ponder things over and eventually improve them. This is exactly what we set out to do in these pages: namely, we wish to lay the foundation for such an analysis of market developments, and thereafter suggest the remedies for making society a workable economic proposition.

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