# LOST SCIENCE OF MONEY

## The Mythology Of Money - The Story Of Power

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Includes Chapter Endnotes, Bibliography,
and Index.

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***"Der Mythos vom Geld - die Geschichte der Macht"***
(The Mythology of Money - The Story of Power)
This first English edition is expanded and updated.

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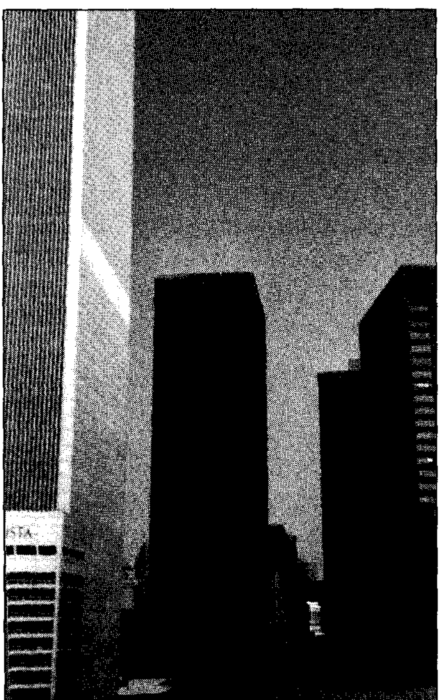
To my mother Lauretta and my father Dino

The Tower of Hercules at La Coruñha, Spain, said to be the oldest continuously operated lighthouse site in the Western World. Here in June 1984, the author learned of the death of his father, and promised to carry out a task in his memory. This book fulfills a part of that pledge.



A view from the author's Battery Park apartment in lower Manhattan in May 1991, just after the first Gulf War. Looking past the south tower of the old World Trade Center, up Liberty Street, the road was like a dark canyon, but at its end was the New York Federal Reserve Bank, basking in sunlight. Its structure dominated and confined the subdued roadway below. At that moment the author realized it was time to concentrate on this work.

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# PREFACE

The final words of our last chapter were written on Labor Day at Oak Street Beach in Chicago. A week later on September 11, 2001, New York's World Trade Center was attacked.

That event, the world has been repeatedly told, "changed everything." To the author, however, rather than a changed world, it seemed more a case of our gaining a greater realization or understanding of what the world had already been allowed to become.

But since the book hadn't gone to the printer, as the illustrations were still being assembled, there was the opportunity to see if indeed changes were called for. We added a few notations in the Introduction, also in the section on Islamic monetary traditions, and the new European Monetary System. Several paragraphs were added to the reform proposals in Chapter 24, to analyze some of the dangers the attacks pose for temporary interference with our Bill of Rights and our constitutional Republic, and thus the prospects for monetary reform.

The events of September 11th, and the potential for further attack, do not alter the book's thesis, or monetary concepts and history presented. Rather, those horrendous, inhuman acts and threats show all the more strongly the pressing need for security, which can only be brought about through a strong long term commitment to justice. And that includes - even depends on - a just monetary system.

The matters we discuss in this book have direct impact not only on our daily lives, but on the direction our civilization will take. That can still be in our hands, if we choose to make it so.

# ACKNOWLEDGMENTS

Two persons deserve special recognition for helping to bring this book into existence. The support and encouragement of Dr. Lucienne De Wulf, through years of research and early drafts, made it possible for the concepts to be developed and written. Also, Dr. Jurg Conzett's support of research of the American Monetary Institute, and his decision to publish this work in German, provided the essential push needed to get the book completed.

Special thanks go posthumously to Robert de Fremery who always stood ready to give the benefit of his decades of valuable study and experience on the reform of our nation's money system.

And I salute Alexander Del Mar, the great monetary historian, whose writings of a century ago provided the necessary keys to rediscovering the lost science of money.

Wendy Fuller of the Chatham Public Library greatly facilitated the on-going research, tirelessly obtaining the hundreds of works requested through the Interlibrary loan system. This small Carnegie Endowment library could borrow books from many of our nation's best university libraries, and on the rare occasions when they didn't have a particular monetary source book, West Point Military Academy usually did.

The facilities of the N.Y. Research Library were essential to the commencement of this work; the Palatine Public Library helped substantially at its conclusion.

Sincere thanks go to those who assisted in the production, printing, and funding of this book: Frank Shannon, Victoria Besterman, Lee Ponsler, David Gineris, Ayana Brooks, Bobby Fisher, Ron Heyman, Sonia Ortiz, Maria Myers, Jim Catalano, Lewis Coleman, George and Irene Romero, Ole and Suzy Mackeprang, Willie Kanies, Louisa Maudr, Lynn Yost, Marc Van Riper, David Hershey, Rob Willems, James Fencil, and especially Takis Kalogroulis.

I'm indebted to David E. Cassel for his valuable editing assistance; to Jesse DeGroodt, Dr. Lucienne De Wulf and Dr. Lewis Coleman for reading the manuscript and making helpful suggestions; to Cybèle De Wulf for photo selections; and to Dolores Grande for the index. Of course this work's presentation, including any errors and omissions, are my responsibility alone.

Stephen A. Zarlenga
Kinderhook, New York
March 21, 2002

"Universal historians will be valuable only
when they can reply to history's essential question:
What is power?"

"History can only be explained by introducing
a power which they apparently do not recognize."

Leon Tolstoy, *War and Peace*

# MONETARY AWARENESS IS THE CRUCIAL MISSING ELEMENT

To begin understanding how the world's power structure operates as we enter the third millennium, citizens must first become aware of certain monetary concepts.

On a national level the behavior of the stock exchanges in the late 1990's appeared to break free of any connection to the real world. As if by magic, wealth and power were quickly and effortlessly amassed and concentrated, as never before, into the hands of a small part of the populace. At the same time growing numbers of normal working people were placed under greater financial stress, falling behind into debt or even bankruptcy. Such developments threaten American Democracy, especially when they occur together.

While financial promoters hailed the coming of a "new era" of ever rising share prices, it was clear to many that something was seriously wrong - but exactly what was it? When the markets began to falter, people were vaguely aware of a monetary cause of the predicament and just before September 11, 2001, the Federal Reserve Chairman's image alternated between "hero" and "rogue," depending on who was asked.

While September 11th was a tragedy for most good people around the world, it has also provided some with a convenient "cover story" to take the blame for the results of flawed systems and policies - dilemmas that were fast coming home to roost anyway.

However, these problems go beyond the shortcomings of any individual and are rooted in the false structure of our monetary system. To understand how America is currently mis-ruled requires that we understand the real monetary causes of the difficulties. To solve them will require that our money system be based in law - not in lies.

On a global level, organizations such as the International Monetary Fund, the World Bank, and the World Trade Organization, long assumed to be serving the financial needs of mankind, have come under attack by youthful demonstrators, charging that their real intent in promoting "globalization" is not to serve but rather to ensnare humanity in a type of perpetual bondage. Statistics do support their charges.

Yet on both the national and international levels, meaningful criticism should also present a better alternative to the present monetary regime and its tendency to consider mankind as so many economic units. To formulate such alternatives we must first examine the nature of money.

## MONEY IMPACTS EVERYTHING

The effects of a flawed money system are not limited to economics, and while monetary knowledge can lead to wiser decisions on personal investments, society's preoccupation with speculation is itself a symptom of the wider disease.

Since the monetary question directly impacts all areas of human activity, in order to make real progress towards justice, a clean environment, a sound energy policy, decent health care and retirement systems, and greater real freedom of choice and action for the citizenry requires the monetary problem to be addressed and solved first.

International developments also demand such knowledge. In Europe the formation of the European Community is among the most important geopolitical events of recent centuries, on the magnitude of the original formation of the United States, and is bound to affect world events far into the future.

A major part of this new political reality is the merging of Europe's national moneys into a single currency - the Euro. Although the media concentrates on the political and economic aspects of the European Union, history indicates that the monetary area will be of paramount importance in shaping the European Community.

## PRIMARY IMPORTANCE OF THE MONETARY POWER

The secular power in society is exercised largely through its monetary and banking system. While much attention is focused on the elections of presidents, prime ministers, and representatives, the real outcomes in society, such as whether there will be general economic justice, or whether some groups will get special privileges, are often quietly determined by the structure of the society's money system.

These monetary decisions will most directly impact citizens' daily lives, more so than the activities of Congress, the President or the Judiciary. Monetary decisions determine how money is made available in the community and who gets it - whether it finances industry and more environmentally friendly production and much needed infrastructure, or goes into speculation and other forms of corruption. It will determine levels of employment and unemployment, incomes, interest rates, and much more. It will shape health care and education and even the arts. It will continue to determine whether the home population is protected from biological and other attack, or is left to fend for itself.

Depending on their structure and implementation, monetary institutions are in a position to do great good or harm to the society they are supposed to serve. Citizen awareness can affect how these institutions are formed and run. Since beginnings often determine the long range functioning of institutions, it would be best if such knowledge can develop and influence the European Monetary Union in its formative stages.

But even if this awareness requires more time to mature, it can still be applied later, should the money system falter and require structural reform. That's the monetary task we face in America today.

## OUR THESIS

The thesis of this book is that a main arena of human struggle is over the monetary control of societies and that this control has been and is now exercised through obscure theories about the nature of money. If it had to be summarized in one sentence, it is that by misdefining the nature of money, special interests have often been able to assume the control of society's monetary system, and in turn, the society itself. Describing how this has been done historically will make these concepts clear and vital, and hopefully sweep aside the mystification in which money has been purposely shrouded. Guidelines for monetary reform are then presented, to end the private control of monetary systems and instead assert the public societal role to control money under the rule of law, rather than the whims of men.

## THE MAIN OBSTACLE - THE MYSTIFICATION OF MONEY

A major problem to understanding money is that, because so much power is exercised through monetary systems, those who control the systems and receive special benefits have protected those privileges by shrouding the monetary concepts in secrecy and confusion.

These smoke screens, applied for centuries, have actually caused many of the principles of the science of money to be lost, as various arts and sciences disappeared during the dark ages. These principles are lost to the general public, and to many in the economics profession, some of whom have further confused the monetary picture.

MONETARY HISTORY HAS BEEN IGNORED

The mystification process succeeded largely because of the dominant method economists have used to study money. From Adam Smith to the Austrian School, they've placed too much emphasis on theoretical reasoning - logical argumentation - rather than on direct observation. Furthermore, they've tried to exclude considerations of morality from their theorizing. About a century ago, the great monetary historian Alexander Del Mar wrote:

"As a rule political economists...do not 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."[1]

That this tendency has continued up to the present is confirmed by the self-admitted methods of Ludwig Von Mises, who in *The Theory of Money and Credit*, one of the bibles of the Austrian School of Economics, wrote:

"The proof of a theory is in its reasoning."[2]

That might make sense if he were discussing mathematics, but not economics. Von Mises actually attacked historical research:

"Knapp, as one of the standard bearers of historicism in political economy, had thought that a substitute for thinking about economic problems could be found in the publication of old documents."

Knapp had launched his own verbal salvo in the introduction to his *State Theory of Money*:

"I hold the attempt to deduce [the nature of money] without the idea of a state to be not only out of date, but even absurd." (p. vii)

The combatants in this struggle don't stop at sarcasm, but sometimes get quite harsh toward those who disagree with their monetary views. Von Mises slurred Benjamin Franklin, the great scientist, inventor, and American revolutionary leader. With Franklin silent in his grave, Von Mises accused him of making positive observations about paper money, because he was a printer and would benefit financially.

The reason that knowledge of monetary history is so crucial is because it can take generations for the effects of a money system to become apparent. Therefore the available empirical data - the facts - on money exist mainly in history. By ignoring, even ridiculing, historical study, such economists unwittingly cast aside whatever limited use history can make of the Scientific Method, and the benefits to be derived from it. It's no accident that most of the "guiding lights" of such schools were formed intellectually before the power and benefits of that method were truly recognized.

## MONETARY HISTORY HAS BEEN CENSORED

Another obstacle is that monetary history has been heavily censored. For example, in the Athenian Constitution that comes down to us, we can find how the garbage was collected, but search in vain to learn how the Athens state coinage system operated. "The Minister of finance is veiled in obscurity," wrote Andreades.[3] Solon's great monetary reforms can barely be pieced together from his poetry and, "There is no record of (his) introduction of coinage into Attica," wrote Freeman.[4] Rome offers a picture that is by no means complete and unambiguous. "Rome has no literary remains," wrote Ridgeway.[5]

## MONETARY DATA IS OFTEN MISINTERPRETED

Still another obstacle is that 19th and 20th century historians tend to apply Adam Smith's monetary concepts in their work and mis-evaluate the monetary data that has survived. Economists often do worse. When the recorded facts conflict with their favorite theories, it's not unusual for them to dispute the facts with a statement such as: "we know that can't be right." They reverse the proper relation between facts and theory. Sound thinking requires theories to conform to the observed facts.

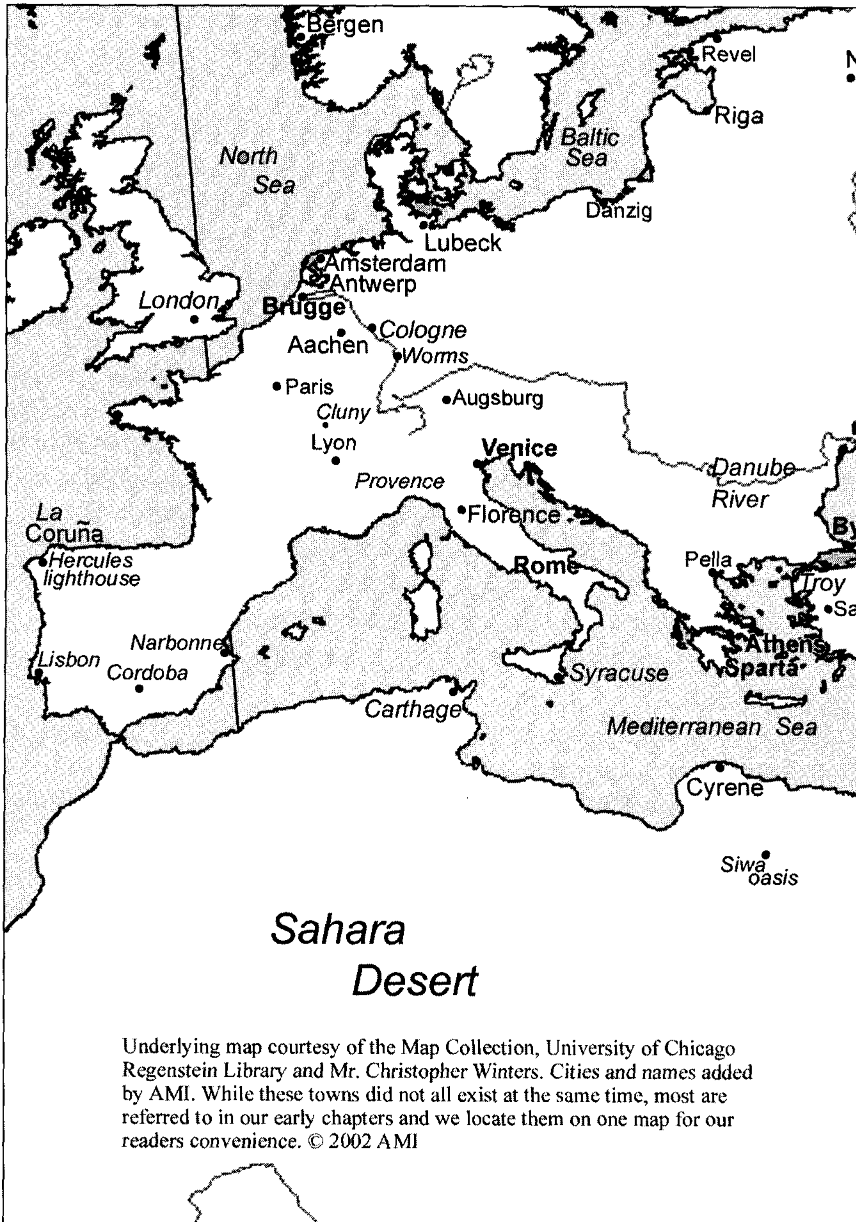
## OUR PURPOSE

The purpose of this book is to contribute some insights from history to clarify these monetary ideas in order to provide a sound conceptual basis for crucially needed monetary reform in the United States, and also to maximize the potential for a good outcome of the new European Monetary Union. Our method is to focus on important principles of the science of money, derived directly from historical examples of monetary systems and thought. We then incorporate them into proposals for American monetary reform, and briefly evaluate the new Euro system's structure.

Since my personal re-discovery of these concepts resulted from chronologically examining monetary events in history, I'll recount them to you in the same way, ordered in time. My task is to make sure you will find that monetary history is never dry or dull, for it is the story of power!

A special notice and caution to readers and researchers:

As we trace the monetary thread through several thousand years brief presentation such as this shouldn't lay claim to finality in respects. The study of monetary history, theory and reform continues advance, making this a work in progress.




Underlying map courtesy of the Map Collection, University of Chicago Regenstein Library and Mr. Christopher Winters. Cities and names added by AMI. While these towns did not all exist at the same time, most are referred to in our early chapters and we locate them on one map for our readers convenience. © 2002 AMI

An objective of the American Monetary Institute is to expand sev- chapters into book length works. A book of this size and scope, ever, is needed today to help integrate these broad monetary con- s into the citizenship's political views and into the work of other al sciences.

Subsequent editions will have additions, clarifications and corrections called for by continuing study and communication with other researchers, who are encouraged to bring their relevant work to our attention and be acknowledged for so doing.

## READING THIS BOOK

The author recommends reading one or two chapters a day. Though the material is presented chronologically and is most comprehensively understood when read that way, some readers may also use it in reference style and focus on sections of immediate concern. If a particular historical period is not your cup of tea, then consider moving to the next Chapter until you find information that draws you more deeply into the book's themes. It is there; and once that happens, the reader may see the significance of other periods in a more meaningful light.

Two cautions are made: Our concentration on the primacy of monetary matters does not deny the sometimes primary importance of other factors, occasionally even of chance, in determining the unfolding course of human events. That said, we do point out that this book looks at history in a new way - **it is a monetary interpretation of history**.

Second, when the monetary views of historical figures are attacked or praised, it does not mean that their other views or life work is thereby denounced or embraced. When we do find such monetary "heroes" and "villains," it will be made explicit.

Finally, please bear in mind as you read this work that we are a charitable organization, dependent on public support for our continuing research. This will continue if enough of those who find these views valuable will take the next step and join the American Monetary Institute as Supporting Members. Details may be found at the end of the book.

(Introduction end notes are with the *Notes to Chapter 1. Please note that wherever quotations are emphasized in bold or italic type, the emphasis has been added.*)

# CHAPTER 1

# THE ORIGINS OF MONEY SYSTEMS

"...Money exists not by nature but by law."
Aristotle (Ethics, 1133)

The battle for control over society's monetary power is fought at many levels, even in theories about monetary beginnings. The origins of money are shrouded in uncertainty. *Very few facts are yet available*, making most ideas about it a kind of educated guesswork. But the dominant *theory* reflects the desires of present day forces intent on keeping government from exercising an appropriate monetary role. Three general types of origins have been put forward - a sacred or religious origin, a social or state origin, and a commercial or trading origin. This last theory, being preferred by economists, has received the most promotion.

## THE "TRADING" ORIGIN OF MONEY

According to this scenario, in a pre-monetary society goods were traded directly or bartered for each other. The need for money arose because the goods to be traded weren't always equal in value, and because traders might not desire the particular goods offered at a particular time. In theory some commodity, because of appropriate qualities, such as high unit value, portability, divisibility and consistent composition, became more and more used as an intermediate item in barter - as a medium of exchange.

In theory, this usage increased its liquidity, which further improved its use in exchanges, so that it eventually became agreed upon as a money commodity. Traders were willing to accept it because they knew that they could more easily exchange it for desired items at a later time. The money commodity's physical qualities also made it a convenient measure of value, or accounting, and at least a temporary store of value.[A]

Some economic schools promote this origin theory because they want to keep the government out of monetary decisions in the present day, and therefore prefer a market-oriented origin theory, which does not depend on a governmental or other institutional decision. But they may be allowing the present day obsession against government to color their judgment.

For while the trading origin sounds quite plausible, it does not stand up to close scrutiny. The scenario already presupposes high levels of development - the recognition of private property as separate from tribal property; the recognition of contracts - the trades; and presumably some system to enforce them. Could these conditions exist unless some other form of money were already in use?

Considering that cattle was a favorite early money, the trading scenario loses a good part of its credibility. It's really an attempt to show the origin of metallic money, not of money. But the crucial question of what gave metallic money its value is not answered, or seriously considered.[6]

## THE "SOCIAL" ORIGIN OF MONEY

The anthropologist A. H. Quiggin presents a very different origin picture in her book, *A Survey of Primitive Money*. While anthropology by itself cannot establish an historical process or event, it may give useful clues. Her idea was that by studying money in primitive societies still in existence, some clues on monetary origins might be found:

"The evidence suggests that barter...was not the main factor in the evolution of money. The objects commonly exchanged in barter do not develop naturally into money and the more important objects used as money seldom appear in ordinary barter. Moreover the inconveniences of barter do not disturb simple societies...this is the state of affairs over about half the world at the present day (1949)." And,

"The objects that are the nearest approach to money substitutes may

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[A] 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*, one of the Libertarians' bibles.

be seen to have acquired their functions by their use, not in barter but in social ceremony."[7] Her anthropological studies showed that standardized payments for brides and blood money for injuries and deaths were the main uses for money.

## THE RELIGIOUS ORIGIN OF MONEY

Paul Einzig and Bernard Laum have presented the case for a sacred origin of money. In *Primitive Money*, Einzig notes that:

"Primitive man was guided largely by non-economic considerations. Among these the belief and fear of supernatural forces...This factor plays an overwhelmingly important part in the life of primitive man and for this reason religious requirements are apt to play a more important part in the origin of money than economic requirements. The evolution of the economic system in general was itself largely influenced by the religious factor."[8]

Laum's historical research is presented in his book *Heileges Geld.* Money's origin, he found, lay in religious cult, as the prescribed sacrifice to the gods, and payment to the priests. As such it became a "creature of legal rights," the oldest such right being the "rite" of the gods. The norm for religious payment then spread to private payments. Laum concluded that the Greek city state came to hold the monetary power "because it held the cult."[9]

So the original development of money may have arisen out of the need for uniform sacrifices or dues to the gods, and fees to the priests. The combination of fear of the supernatural, plus respect for the priests' ability to tell the right time to plant crops, and their primitive knowledge of both medicines and poisons, would have been a very powerful influence.

## CATTLE WAS AN EARLY MONETARY STANDARD

Developments in archeology, numismatics, and other disciplines will continue to give us a clearer picture of monetary beginnings. Although we may never know exactly how the earliest money arose, it may have been from a combination of the factors described, which were in any case likely to be closely linked. We do know that one of the most widely used moneys and measuring units for large transactions was the ox or cow. From Ireland to the Mediterranean to Africa, cattle were used as a means of exchange, and especially as a measure of value. Furthermore, they appear to have had a fairly stable value, with three to four cows exchangeable for one slave woman in ancient Ireland and in Homeric Greece.[10]

## CIVILIZATION'S TIMELINE

Let us place money into the context of the major milestones of human progress:

Starting around 30,000 BC, a progressive refinement is apparent in human existence until social and economic forms of agriculture appeared around 10,000 to 7,500 BC. This took the form of hoe gardening done mainly by women. Because hoe gardening was more productive than hunter gathering, scholars have theorized it led to matriarchal societies dominated by women.

From around 6,000 BC the horse was tamed, and sheep, goats and cattle were domesticated, so that by 5,000 BC there existed a mixed culture based on animal breeding and hoe gardening. The great plow revolution, starting about 4,500 BC, was complete by 4,000 BC. The remarkable plow enabled the first city civilizations to quickly arise.

## THE ANCIENT ORIENTAL MONEY SYSTEM

The form of social and economic organization taken by these early urban communities in Egypt, Assyria, and Sumeria is known as the Ancient Oriental System. It embraced the "concept of a living King as the divine representative and savior of the whole human race, who had the power to organize the welfare of the whole world." A powerful Royal household, in conjunction with a temple hierarchy, held centralized control over the economy. Compulsory labor service could be required for public works, and the Pharaohs instructed what and how much to plant, and how much of the harvest would go into storage.[12]

Agricultural commodities by weight served as the primitive money system in the ancient Oriental societies. They also used metallic commodities, particularly silver by weight. Thus when money is discussed in the Old Testament, as metal by weight, it has less to do with divine inspiration than with the lingering influence of the primitive Oriental systems in place prior to 600 BC, when the Bible began to be orally created.

It is presumed that in earlier agrarian societies, loans had been made in seed grains, animals and tools to farmers. Since one grain of seed could generate a plant with 100 new grain seeds, after the harvest farmers could repay the grain with interest in grain. Similarly, when animals were loaned they could be repaid with interest in the form of sharing in any new animals born.

The Sumerians used the same word - mas - for both calves and interest. A similar Egyptian word meant to give birth. What was loaned thus had the power of generation, and interest was a sharing of the result.

According to Heichelheim, this was changed in old Babylonia: "The main ancient oriental innovation in this field was that inorganic materials were treated as if they were living organisms with the means of reproduction," he wrote.[12]

## THE USURY ERROR

It would have been a major conceptual error to allow usury to be charged on agricultural loans denominated in metals, especially if the interest and principal was to be paid in metal. For one thing, metals are "barren" - they have no powers of generation. Any interest paid in them must originate from some other source or process, outside of the borrower's understanding or control. Money and power would concentrate in the hands of lenders.

This structural flaw was alleviated by the central authority. Although the Royal household was the largest lender and charger of interest, it took decisive action to minimize the harmful effects of usury, by periodically declaring agricultural debt forgiveness. It also set official prices for valuing various farm commodities, in effect monetizing them.

"In the earliest city cultures every form of exchangeable goods could be used as money," Heichelheim reports, estimating that 12 to 20 such commodities were monetized. He thought that price lists such as Hammurabi's price tables (and those of Sumer, and of Mesopotamia) have been misinterpreted as price controls when they are really official exchange rates of various commodities when used as money.[13]

This meant that borrowers, depending on their harvest to repay loans, wouldn't be harmed by seasonal market supply and demand forces, as the increased supply from their harvest tended to push market prices lower. Thus the effect of monetizing these commodities was to set minimum floor prices for them, when used to repay loans.

But the usury error struck in Europe, and by the time the practice of usury reached Greece and Rome, over a millennia later, repayment and interest of metallic loans for agriculture were being demanded in metal or coinage. This practice was not sustainable, and as we shall see, it led to horrendous societal problems wherever it occurred.

## DID "MONEY" ARISE IN ORDER TO STANDARDIZE DEBT?

Recent research on the monetary activities of Mesopotamian temples, by Michael Hudson's scholar's conference, shows a connection between debt and the origin of money.[14] There we first encounter interest-bearing debt. Credits extended by temples were denominated in barley and in silver. Hudson postulates that temples developed money as an accounting tool - a means of denominating debt - in order to standardize their accounting procedures.[B]

## IRON DISRUPTED THE ANCIENT ORIENT

The foundations of the oriental societies were shaken by the introduction of iron around 1400 BC, which spurred great migrations into areas like Greece, Italy, and other parts of Europe by nations which took advantage of the new weapons to conquer more conservative peoples. Iron created as much turmoil as the great plow revolution because previously unworkable heavy soils in southern Russia, Italy, Spain and Germany could be worked with the iron plow.

Even after the oriental societies faltered, the temple cults, which had performed monetary functions for the Royal households, continued to exert an oriental influence on money systems. They developed earliest and most powerfully in Egypt and Mesopotamia:

"By the second millennium BC the temples of Re, Ptah and Ammon had become organizations of great power...In the Harris Papyrus of the 11th century BC we find recorded the tremendous holdings of the God Ammon, his [headquarters] centered at Thebes [the fabulous Luxor/Karnak complex]. This household controlled great stretches of arable land and the slaves to work them. It owned towns on the Red Sea coast and in Syria. It owned ships for carrying its surplus beyond the bounds of Egypt. Industrially it was a great and self sufficient unit,"

---

[B] Hudson notes that temples had made advances of food - two meals a day - to sustain farmers working on temple lands. This probably gave rise to the region's sexagesimal (based on 60) counting system for weight and monetary units: "Inasmuch as food rations were to be consumed twice daily, the temples and palaces divided their monthly measures into 60 units [their calendar used a 30 day month]. This made the typical small meal measure – one 'quart'– 1/60th of the monthly 'bushel' allocation"...This sexagesimal system...spread throughout the Sumerian economy, including the units of weight used to measure silver. The large institutions based their accounting systems on the equivalency of one mina of silver per 'bushel' of barley. Dividing the mina weight into 60 shekels of silver made each shekel equal in value to a 'quart' of barley. This parity enabled the institutions to keep their accounts in a bi-monetary standard...calculated readily and equally in terms of silver and barley."[14]

For accounting convenience 3rd millennium BC interest on silver loans was calculated at 1/60th per month - one shekel per mina, which was 12/60th per year, or 20%.

wrote William Linn Westerman.[15]

Egyptian temples made check-like transfers of grain between depositors, even to branches at different cities, supporting the view that grains had been monetized.

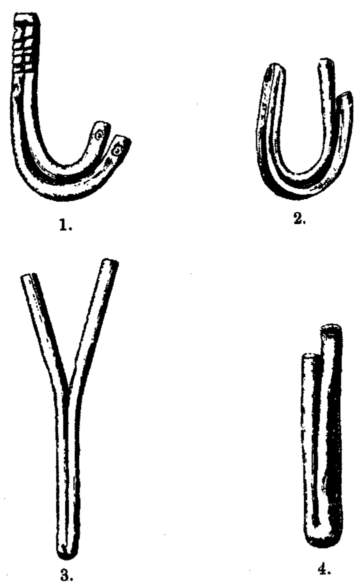
Egypt had the largest and most densely settled population of the Mediterranean world, making it more of a nation, or at least a river state, than a city state. It had one of the most advanced priestly classes, which Herodotus tells us traced their chronology back 17,000 years, yet no coin of the Pharaohs has ever been found. However, glass and porcelain scarabs have been found in large numbers, prompting speculation by some monetary historians that at one point the scarabs constituted a money system.[16]

## ABSTRACT "TOOL" MONEY IN THE WEST

The newer Western societies organized themselves on a more individualistic basis than in the ancient Orient, functioning with less central control. Money took on more abstract forms in the West; advanced forms that were outside of the monetary traditions of the Orient.

In 1991, high in the Austrian-Italian Otztaler Alps, the 5,000-year-old body of a man was discovered on a melting glacier. Among his possessions was a well-preserved copper ax which mystified experts who determined it couldn't have been very useful as an ax.

*1a.* **Tool moneys probably began as usable utensils and evolved into a primitive token money, as representations of tools. These crude abstract moneys developed both to the east and west of the ancient oriental cultures (Babylon), where they were unknown. This fish hook money is from Larins, Persian Gulf. As it becomes used as money, 1 evolves into 2; and 3 evolves into 4.**



It may have been an early form of what is called "tool money." This money form, in the shape of tools (hooks, knives, axes, shovels), presumably started out as real, usable tools, valued for their function. Then over time, as their use as money became dominant and their "tool" use became unimportant to their value, their form as money became their defining characteristic while their possible use as tools became almost non-existent.

Such tool money developed both to the east of the ancient Orient, in China, and to the west in Europe. We concentrate here on the Western developments. Heichelheim writes:

"Cattle…was an often chosen primitive measure…but more often a further form of money was popular among the Greeks and the other new racial groups…especially for the more local trade…this was 'metal tool money.' These were not carefully weighed and examined, but were accepted…if they had the traditional form and appearance…."[17]

Tool moneys were used over substantial geographical areas, within the tribes or nations that recognized and sanctioned particular forms of them. The oriental system of metal by weight was still potentially relevant for more distant trading.

MONETARY ROLE OF THE GREEK TEMPLES

Sir William Ridgeway, in *The Origin of Metallic Weights and Standards,* described the Greek temple activities of a later period:

"The Temple shrines of Delphi and Olympia, Delos and Dodora were centres not merely of religious cult but likewise of trade and commerce...merchants and traders taking advantage of the assembling together of large bodies of worshippers from various quarters to... 'tempt' them with their wares. The Temple authorities encouraged trade in every way; they constructed sacred roads, which gave facility for traveling at a time when roads were almost unknown...and placed those who traveled on them under the protection of their god...at the time of the sacred festivals all strife had to cease...offering a breathing space for trade and commerce - hence the probability is considerable that the art of minting money...first had its birth in the sanctuary of some god."[18]

This development may have been an isolated event. Quiggin, describing how real metal hooks, knives and spits used as money became transformed into token representations of such objects, writes:

"To us looking backward, the next step appears obvious and inevitable, but it was only in rare spots, possibly only in one rare spot, that the final stage was reached, and definite weights of metal, rounded, flattened and stamped, can be called coins."[19]

## THE MONETIZATION OF GOLD

Between roughly 1500 BC and 1000 BC the money systems of Mediterranean societies began shifting slowly but directly, from a cattle standard to a gold by weight standard. It appears that the temples played an important role in monetizing gold.

In the ancient world, gold would have been the easiest metal for primitive man to obtain. It occurs geologically in ore bearing reefs associated with volcanic activity, and was present in most mountain ranges. Though the metal would have been hard to extract from rock, weather and erosion broke the rock down, separating the pure gold particles and depositing them in river beds in easy to mine "placer" deposits. Since gold doesn't decompose or oxidize, the deposits would have remained intact until men found them. Copper would have been the second easiest to obtain, and silver would have required the most developed technology of the three.

We can surmise that at a very early date gold, which was used ornamentally, was accepted as donations or fees to the temples, along with agricultural and animal produce. Unlike the organic donations which had to be consumed, the gold would remain. Over time, a large proportion of the existing gold would accumulate in the temples.

This is supported by the vast amounts of gold and silver that Alexander the Great later seized in 330 BC from the eastern temples at Susa, Ecbatana and Persepolis, estimated at 740,000 talents, including 2,200 metric tons of silver valued at 180,000 talents.[20]

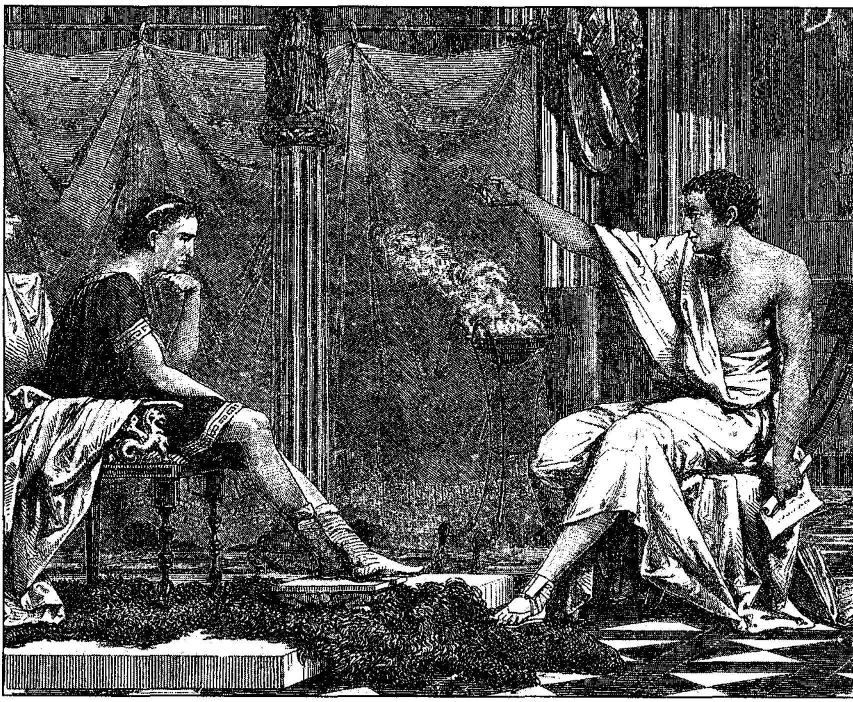
The size of these hoards indicates that they were not accumulated for economic reasons, for they could never actually be used in commerce. "Supply and demand had little to do with the production of precious metals," concluded Francis Amassa Walker, once head of the US Bureau of Statistics.[21]

**Augustus Boeckh, in *The Public Economy of Athens,* concurs that "There was an abundance of the precious metals, although not, to be sure, in circulation...A great quantity was kept from circulation (by Darius)...In Greece, also great quantities were kept from circulation, and accumulated in temples."[22]**

The abundance of gold held by the temples after centuries of successful accumulation would be one reason to monetize it. Just so much artwork and ornamentation would be tasteful. Just so much might be traded for intended use as jewelry, or introduced into circulation as loans. Only so much was prudent to hold in reserve. Thus the commodity value of gold would tend to drop over the centuries as more gold was accumulated, unless the Temple used its deep pockets to hold it back off the market in useless storage.

THE "CONSECRATION" PROCESS REMOVED GOLD

One visible aspect of the withdrawal of gold appears in a long-standing tradition: a "consecration" process in which gold or coinage was buried in the foundations of Temples or similarly walled up. Archeologists have unearthed substantial numbers of coins buried with



*1b.* **Aristotle and his student Alexander the Great. Alexander's quest was not for treasure! The metal he seized was put into circulation as coinage to support his military and cultural operations. This caused the prices of practically all commodities to double over a fifty year period, according to price lists from the temple records of Delos.[22]**

the foundation stones of the great Temple of Diana at Ephesus. Roman historian Livy described another case:

"Gaius Sulpicus...collected from the spoils a considerable weight of gold, which he walled up with hewn stone in the Capitol, and so dedicated," during the war with the Gauls in 359-358 BC.[24]

Tacitus describes the survival of this custom 400 years later, on the restoration of the Capitol by Vespasian around 69 AD:

"Contributions of gold and silver and virgin ores never smelted in the furnace...were showered on the foundations."[25]

Monetizing the gold - declaring a fixed amount of it equal to one cow - would alleviate the problems of gold abundance. Further, a more abstract form of money is created, able to symbolize or represent substantial wealth with a small physical quantity, whereas the value of a cow would tend to be limited by what people saw as the value of its products.

The Temples held such a large portion of the existing gold that they could control it. It would be difficult for others to obtain substantial amounts except through them, and they could create a value for it by accepting it for their "services," which people considered a necessary part of life. Even, for example, to pay for "temple prostitutes" as described by Herodotus and Strabo, for later periods.[26] Our studies suggest this "control" factor as potentially more important than intrinsic value considerations; that money is more a question of power than economics.

WHAT DETERMINED GOLD'S VALUE?

The answer to this important question must recognize that gold was probably not so scarce in the temples. The value of a cow or ox is fairly concrete. It can give milk and fertilizer, or pull a plow, create more cows, or ultimately give its hide and meat. What, however, determines the value of a piece of gold or silver which is not even consumed?

Who decided what the ratio of cattle to gold would be, and how did they come to this great financial decision of antiquity? Economists from Adam Smith down have assumed that the value of gold is determined by supply and demand, cost of production, and market factors. However, as we shall learn from the way other similar values were determined, such as the gold/silver ratio, it is likely that this decision was much more arbitrarily made.

It's more likely that this policy decision was designed to improve the power of the "Who" part of the question - the priesthoods of the great

Temple cults. So the real point is not what, but WHO gave gold its value.

How it was done was to translate gold's value into the unit societies were used to - the cow. In Homeric times, just before the widespread introduction of coinage, the relation between gold bullion and cattle was 1 cow or ox equaled 130 grains weight of gold, which was known as a "talanton." Each grain corresponded to the weight of a grain of wheat. One hundred thirty grains is just under 1/4 ounce, or about 8 grams.

**"The gold unit represented originally simply the conventional value of the cow as the immemorial unit of barter," wrote Ridgeway, who conjectured that 130-135 grains was selected partly because it fits conveniently into the palm of the hand.[27]**

This institutionally determined convention or standard appears to have been adopted around the Mediterranean for several centuries. Simple gold rings found in Egyptian ruins weigh 128 grains. Similar gold jewelry found by Schliemann at Mycennae, Agamemnon's home, weighed 130-135 grains, as well as rings found on the island of Aegina, just 20 miles off Athens.

GOLD WAS AN EARLY "FIAT" MONEY

The 130 grain convention would, over time, confer or identify a monetary value on that amount of gold as equal to a cow. Supply and demand would not be a major factor, as the temples had ample supply, the power to hold it off the market, and the power to create a demand for gold by requiring it for their services.

This would make gold one of the early fiat moneys used by man. A fiat money is one whose value is decreed and fostered by institutional decision. The process of monetization confers value on the symbol to be used as money.

Gold also has a commodity value. With gold these two attributes have always been confused, so that people speak of gold money as being "intrinsically" valuable. They are referring to its commodity value. But in reality this commodity value is only responsible for a part of the price of gold. Perhaps a larger portion of its value is due to its designation as money, because this assignment caused vast amounts of gold to be held off the market in various treasuries.

THE EAST INFLUENCED MONETARILY

Over time, with the powerful sponsorship of the Eastern temples, gold would supplant cattle, and come to be valued as money. The spreading of this concept westward is one of the earliest examples of a theme that has recurred throughout Western history: monetary control usually went from east to west.

In this process the "East" made "gifts" of gold to the West. King Gyges (682-52 BC) and King Croesseus (561-46 BC) of Lydia in Asia Minor made large gifts of gold and silver to the temples at Delphi and Branchidae, the two main temples of Apollo. Such donations did not always benefit the donor - the Oracle's bad advice to Croesseus led to his rapid downfall at the hands of the Persians. But using the East's money generally brought Eastern influence.

Thus when the Cretans went to Delphi in 480 BC to ask the Oracle if they should join the other Greeks in the war against Persia, the Oracle of Delphi ridiculed them and kept them out of the fight.

"The Persians invaded Greece, the famous battles of Thermopylae, Artemisium and Salamis were fought (and) the Delphic Priesthood came near to collaborating with Persia," wrote Seltman, "For 50 years after the Persians were defeated, Olympia rather than Delphi became the spiritual center of Greece."[28]

The Priests of Branchidae openly sided with the Persians and had to emigrate east after their defeat. About 150 years later Alexander The Great, in his conquests, came across the descendants of that Priesthood living in a community just south of Samarkand. Alexander uncharacteristically killed them all and had the town razed to the ground, giving humanity a lesson in the importance of not forgetting this type of treason.

Then there is Herodotus' report of Alcmeonides, the Athenian who the ruler Croesseus permitted to take as much gold out of his treasury as he could carry, multiplied by two! This treasure established generations of the Alcmeonid family, which became a center of power and controversy in Athens. Were these cases of international generosity or of transplanting - insinuating - a gold money system and ultimately Eastern influence into the West?

## GREEK CITY STATES INTRODUCE COINAGE

Exactly when coinage was introduced is still debated. China's oldest document, the *Shu Ching*, says coinage originated there in 1766 BC, while the *Shu Chi* (written from 163 to 85 BC) dates the origin from the Emperors Shun and Yu, in the 3rd millennium BC.

In the West, Plutarch's *Parallel Lives* says Theseus issued coins in Athens with the "impression of an ox," about 1260 BC. Pausanius discusses coins in Troezen (near Epidavrous) around 1200 BC with a trident and the head of Athena (Book II, Argolics, Chapter 30). However, numismatists and economic historians prefer to place the date at about 700 BC, and the place at Lydia on the western coast of present day Turkey. They consider that as the time true coinage became systematized, and we have specimens of some of the coins.

## THE COINAGE "COMPROMISE"

Coinage of gold and silver has been viewed as a compromise between the more abstract fiat tool money forms of the West and the more materialistic metal by weight system of the Orient. For while the money was made of gold, it was valued by tale - the official form and stamp.[29]

Lydia was organized largely on the Oriental model but fresher Greek societies were on its western border. Coinage didn't start in the Lydian capital of Sardes, but on the border in the Greek cities of Ephesus and Miletus, which were allies or subjects of the Lydian Kings.[30]

## THE MIDAS WARNING

Interestingly the legend of King Midas arises from this region - a story powerful enough to reach us through nearly 30 centuries of mostly pro-gold indoctrination. Ovid related the story in his *Metamorphoses*:

Midas was granted one wish by the Gods, who wanted to know what mankind considered the greatest gift. A kind man who ruled his kingdom fairly, Midas was not one to think very deeply about what he said, and though already wealthy, he quickly wished that whatever he touch be turned to gold. He soon realized his error when he could not eat the food he touched and his beloved daughter Marygold turned into a statue when she hugged him. The God Dionysius took pity on Midas and allowed the waters of the Pactolus river to cleanse him of the power and reverse its effect, restoring his daughter.

We usually view the Midas legend as a warning against greed, but perhaps it is more of a monetary warning against idolizing gold. The story remains a powerful block to making a fetish out of gold. It helps us to keep from confusing the value and proper role money has in human life with a cold, dead commodity for its own sake.

## EACH CITY USED ITS OWN COINAGE

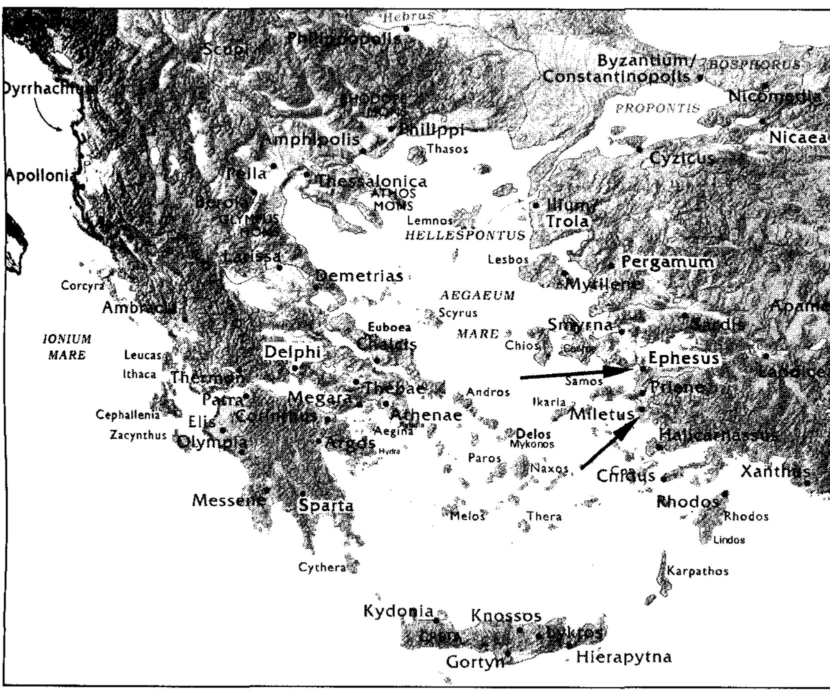
Coins at first were very crude and stamped on only one side. From the reign of Amyntas II (393-369 BC) of Macedon, Alexander's grandfather, coins were well stamped on both sides. Perhaps the word "mint" evolved from his name. The word "coin" is modern, from the French "coigne" - a corner or wedge, derived from the Latin cuneus, a term for the wedge or punch used in striking coins.

Coinage was introduced under the political authority of each city state, in response to their needs. It brought obvious advantages over bullion as the uniformity of the coins material was assured by the minting authority and need not be tested. Perhaps more importantly, it was a way to limit or define the total amount of money legally authorized to circulate in a particular jurisdiction.

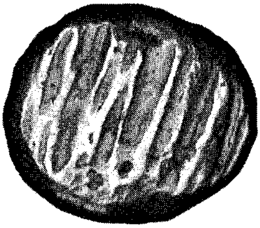
"Coinage in the Greek cities was the monopoly of the state, and the use of the local coins was compulsory in the territory of a given city," wrote Rostovtzef. Coins from other cities could circulate only if counter stamped by the city authorities.[31]

Hasebroek's *Trade and Politics in Ancient Greece* gives an example of restrictive coinage legislation:

"The Athenian decree of 420 BC (S.I.G., 87) lays down that 'if any man in the allied cities coin silver money, or does not employ the Athenian coins, weights and measures, but foreign coins, weights and measures, he shall be punished according to the earlier decree of

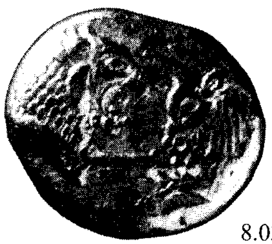


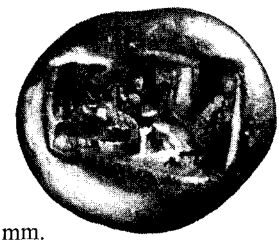

*1c.* **Though there are earlier references to coins in ancient texts, systematic coinage is considered to have first developed in the Greek city states of Ephesus and Miletus on the border of Lydia (now western Turkey) in the 7th century BC.**



2.312 grams; 9.8 mm.

*1d.* **Early Lydian coins were often made of electrum, a mixture of gold and silver occuring in nature, and were stamped or marked on one side, with the punch mark on the obverse. Above is an Ionian gold "hecte" (1/6 stater) of the late 7th century BC.**
*1e*, **Below, is a sixth century BC gold stater of King Croseus, at 135 grains.**





8.038 grams;19 mm.
(135 grains)

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Clearchus. Private persons shall...hand over their foreign money; the city shall change it...they shall pay it into the mint where the superintendent shall receive it'...."[32]

Prof. Kolin Kraay, in *Greek Coins* confirms that:

"The issuer in all identifiable cases proves to be the supreme political power in each city or state; there is no evidence in the Greek world for the private issue of coins by bankers or merchants."[33]

We are used to thinking of bullion and coinage as convertible to one another, but that wasn't widely practiced in Europe until the 16th and 17th century free coinage laws of Holland, Spain and England.

Bernard Laum said the monetary power was in city hands because they also held the cults. But while each city revered a particular god above the others, the cults operated internationally, often as bankers.

## GREEK TEMPLES AS BANKS

Temple treasuries often functioned like banks, loaning not only their own money, but money that had been entrusted to them for safekeeping. Prof. Andreas Andreades wrote:

"The only 'great capitalists' were the Panhellenic shrines at Delphi and Olympia, earlier Ephesus and at Athens. The shrines were extremely cautious on loans. Of 13 state debts [owed] to Delos, Island of Apollo, two were paid in full; two never paid the interest; eight paid irregularly...The state loans were short term - five years or less...As security the Temples received concessions on public revenues and mortgages of fields and buildings...the interest rate was 10-12% per year."[34]

The revenue of local temples came from the same sources as the city revenues - dues, fees and fines. They received 1/10 of many fines collected by the city, and 1/10 of war spoils. But the largest source of temple revenues was from donations and death bequests. Internationally important temples such as on Delos island, a stone's throw from Mykonos, and at Delphi, about 100 mountainous miles west of Athens, received many of their bequests from foreign lands.[35]

The city states respected the property of foreign temples and rarely seized it, but the international temples' interests did not always coincide with those of the cities' which were more tied to one piece of real estate and one citizenry.

## "TREASURERS OF THE GODS"

Battles had occurred between cities and temples, as when the Athenians invaded and took possession of Delos island and its Temple of Apollo, in about 425 BC. The oracle of Apollo's Temple at Delphi commanded them to leave, and they did. The temples could form powerful alliances as in about 418 BC, when during the Peloponesian War the treasurers of 10 major temples were united into one board, calling itself the "Treasurers of The Gods."[36] Such combinations had the potential to create monetary problems for a city by moving gold or silver into or out of it. With their own local coinages, the city states could "disenfranchise" foreign coin and metal hoards and exercise more control over their destiny.

State coinage then may have resulted from a power shift, a "development," or an understanding between the city states and the international temple cults - between government and religion. The city coinages were still closely associated with the temples, with the city's mint annexed to a particular temple. In Athens, the mint was at the sanctuary of Stephanephore (Theseus).[37]

## THE 130 GRAIN STANDARD "RELIGIOUSLY" CONTINUED

The Greek city states continued the old 130 grain standard in the new coinage. Ridgeway's examination of gold coins of several cities from 600 to 200 BC shows that they were minted within five grains of Homer's Talanton - the ancient ox/cow unit:[38]

| | |
|---|---|
| Indian Dharana (600-500 BC) | 130 grains |
| Croesseus Gold Stater (c. 550 BC) | 128 grains |
| Darius' Persian Daric (c. 505 BC) | 130 grains |
| Rhodos gold coin (early 4th cent. BC) | 130-35 grains |
| Thasos gold coin (c. 400 BC) | 135 grains |
| Athens gold coin (c. 400 BC) | 130 grains |
| Philip II' s Macedonian Stater (c. 345 BC) | 130 grains |
| Bactrian Stater | 130-32 grains |
| Babylonian and Phoenician coinage | 260 grains |

(a double 130, possibly indicating that a yoke [pair] of oxen was more normal in this advanced area).

Some of these coins conform to the Attic standard, probably instituted by Solon about 594 BC; or to the earlier 130 grain Euobic standard, on which the Attic was based. This was nearly identical to the Persian standard, which the Persians probably adopted for use with the Greeks.[39] Later, many coins were minted at about 145 grains.

By focusing on the similarities of these coinages, Ridgeway's *Origin of Metallic Weights and Standards*, published in 1892, presented a powerful argument for an institutional origin of money. Carl Menger, founder of the Austrian School, felt compelled in 1892 to issue *The Origin of Money*, an excerpt from a previous book, which argued from theory for a market or trading origin of money. Menger's "*Origin*" is promoted by the Austrian School with an aura of being historically based, but this author has demonstrated that Menger's view is entirely theoretical, by pointing out that Menger's historical references all argue 180 degrees against Menger's own thesis.[40]

## PROBLEMS WITH "INTRINSICALLY" VALUABLE COINAGE

Coinage was a big improvement over the ancient Oriental money systems because it was legally valued and its quantity could be controlled by law. But it was still vulnerable to manipulation and other defects mainly because its metallic content could interfere with its monetary function, since the metal was considered valuable apart from the coin form.

Del Mar wrote, "It was only necessary for an enemy to quietly withdraw some of the precious metals in circulation, or as quietly to add

*1f.* Cyzicus; Priest sacrificing a ram.
16.05 grams; 269 grains electrum,
(double 135); c.475 BC.

*1g.* Gold Daric of Darius;
7.74 grams; 130 grains;
522-486 BC.

*1h.* Thasos; satyr
abducting a nymph;
8.73 grams silver; 146
grains; 411-390 BC.

*1i.* Macedonian gold
Stater of Philip II;
8.56 grams; 21 mm;
143 grains;
382-336 BC.

**Prof. Ridgeway identified a 130 grain weight consistency in several old Mediterranean coinages, such as the Croesseus Stater, *fig. 1e,* p. 24; the Cyzicus coin, *fig. 1f* above; the Persian Daric, *fig. 1g* above; and others. This argued for an institutional rather than a market origin of money.**

illegally fabricated, albeit full weighted coins, to the circulation, in order to produce a prolonged financial crisis, and alter the entire relations of society." Changes in mining, or even in the fashion of wearing gold jewelry, could affect the money system.[41]

Greek silver coins would later turn up in India in substantial numbers as silver objects of trade. But this did not help the functioning of the money system in Greece.

HIGH POWERED COINAGE WAS LIMITED IN USE

The early Lydian coins were made of electrum - a mixture of gold and silver. These and the gold coins from various cities could be used for major transactions but were not suitable for everyday trading, even less than trying to do all local shopping with only hundred dollar bills would be today.

Silver coinage, which could be used in everyday commerce, finally developed further to the west on the island of Aegina around 630 BC, Corinth in 610 BC, and in Athens about 600-590 BC, in Solon's era. Peisistratos later unified the issue of Athen's coinage, minting the famous silver "Owls," which remained popular from the 6th to the 2nd centuries BC.

SMALLER SILVER COINAGE REVOLUTIONIZES GREEK SOCIETY

The Greek silver coinage was issued in large pieces close in value to the small electrum coins, but also in coins at 1/10 the value of the electrum coins, and less. These readily available small coins became

*1j.*
**In the mid-500s BC Pesistratos began minting the Athenian Owl coinages in many small denominations. This 4 drachma piece dates from 449 - 404 BC, is 24.7 mm across, and weighs 17.1 grams.**

indispensable for everyday use, replacing the old tool money, making it possible for small measures of agricultural and industrial products to be easily bought and sold. Small farmers and craftsmen became able to establish savings, broadening the economic infrastructure, which was an essential precondition for Periclean democracy:

"...and here only in three mints (Aegina, Corinth and Athens)...an economic development led to a higher pattern (or revolution) before the late 6th century BC than anybody had yet thought of...the traditional power of the aristocracy gave way before tyrants and finally before democracy...merchants here attained social distinction for the first time in world history," wrote Heichelheim.[42]

BUT THE USURY PROBLEM REQUIRED SOLON'S REFORMS

The negative effects of the ancient oriental practice of treating inanimate and organic materials identically for purposes of agricultural usury had been alleviated by monetizing other commodities. But in the Greek city states, prices and required acceptance of agricultural commodities were not monetized by central authority but valued by more individualistically determined markets. Charging usury on coinage led to severe problems which required Solon's monetary interventions.

In Athens about 600 BC the class of free small farmers was vanishing, with land becoming concentrated into the hands of the Oligarchy. In the words of Professor Calhoun:

**"Before the introduction of coined money the peasant farmer borrowed commodities and repaid the loan in kind, and...was probably able to meet the obligation without great difficulty; but after the introduction of coined money the situation became decidedly more difficult...he must take a loan of money (to) purchase his necessary supplies at a time when money was cheap and commodities dear. When a year of plenty came and he undertook to repay the loan (in money), commodities were cheap and money was dear."[43]**

J.G. Milne's highlighted another obstacle to the farmer: Through an obscure process, the lenders controlled the exchange rates of silver between Athens and the Island of Aegina, at that time the source of Athens's silver coinage:

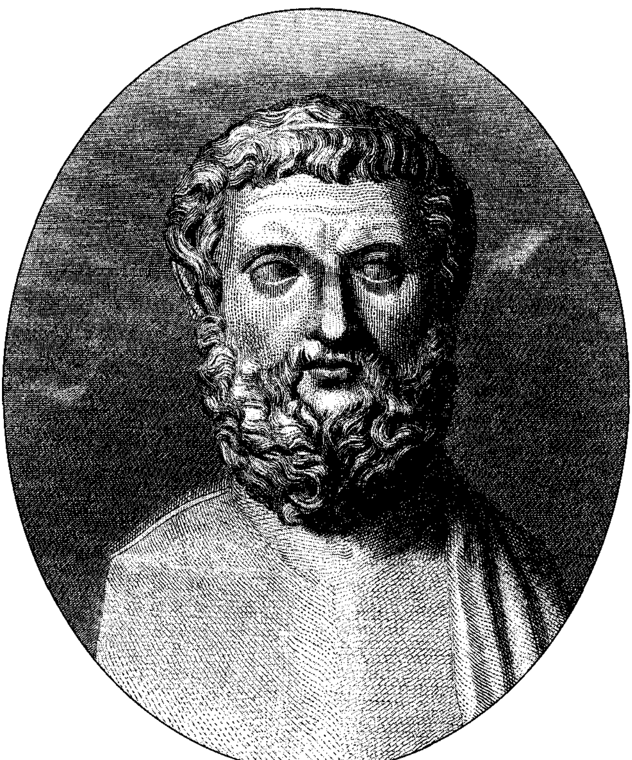
"He got from the lenders coins which were valued at the Aeginaten rates, and then had to pay the interest on the loan by means of his produce which he sold at the Attic (Athenian) rates: with the result that the rate of interest was in effect increased by something like 50%."[44]

Unable to get out of debt, eventually bad weather or a poor harvest would bring foreclosure on their land, and even bind them into slavery.

This enslavement grew to crisis proportions, when Solon came to Athens' rescue with his "Seisachtheia" or "shaking off" of burdens. Personal slavery was no longer allowed as security for debts. The rest of this momentous reform has been "censored out of the records" and is found mainly in Solon's poems.[44] He canceled such existing debt contracts, and gave back land that had been seized. Farmers who had been sold into slavery abroad by those to whom they owed money were "bought" back and returned to Athens by Solon.[46]

In addition, Solon used the ancient oriental method to alleviate the usury error: he declared a definite minimum monetary equivalent for each agricultural product, in effect setting floor prices for them.[47]

Solon was probably the first to introduce locally minted silver coinage into Attica, switching from the "Aeginatic" to the lighter weight "Attic standard" where a 130 grain silver coin was valued at 2 drachmas.



*1k.* **Solon decreed several monetary reforms for Athens' debt crisis, including monetizing agricultural commodities to offset usury's destructive effect on farmers. These laws were later studied and partly copied at Rome.**

This reduced coinage weights by about 3/7 ths, ending the lender's foreign exchange advantage. According to Aristotle, Solon increased the amount of coinage in circulation, obtaining the silver from Corinth. He favored smaller farmers and helped them by setting a maximum size on land holdings. But he did not go so far as to redistribute the land in equal portions, as Lycurgus had done in Sparta. Thus this important early reform was unpopular with everyone, farmer and moneylender alike.

Solon's reforms were essentially protectionist. He forbade export of all agricultural produce except olive oil, which brought lower food prices and better quality foods to the home market. Foreigners had to pay special fees to sell in Athenian markets. Solon's laws against female luxuries reduced imports of such items into Attica.[48]

In his travels as a youth, Solon had functioned as a merchant and understood commerce. Yet he blamed Athens' problems mainly on the rich Oligarchy. He became known as one of the seven great wise men, and presented the Oracle of Delphi with the "wisdom gift" which became inscribed on the temple entrance there: "Know thyself" and "Nothing too much."

Solon wrote that he based his laws on an overriding Greek principle - his ideal "eunomia." Aristotle would later call it "mesotes" and the Roman Cicero called it "aurea mediocritas" - the perfect balance between conflicting extremes. Solon's intent was to establish eunomia by law - a perfect balance in state and society.

Solon's reforms achieved such international recognition that 145 years later, in 454 BC, a small settlement on the western Italian Peninsula sent a delegation to Athens to study his legislation, parts of which became incorporated into their legal code when they returned home to Rome.

## EVIDENCES OF A LOST SCIENCE OF MONEY: LYCURGUS' NOMISMA SYSTEM IN SPARTA

Coinage was one way to limit the negative commodity aspects of the ancient eastern money systems. But an even more fundamental approach in harmony with the nature of money is described in Plutarch's *Parallel Lives*. As a member of the Delphic priesthood, Plutarch recounts (in 100 AD) the first documented attempt to establish a "nomisma" money system, by Lycurgus of Sparta in the 8th century BC.[49]

According to Plutarch, Lycurgus had traveled widely, visiting India, Spain and Libya. On the island of Crete, once home of the dominant Minoan culture, he met the lyric poet Thales "the lawgiver." They returned to Sparta and Lycurgus, who was of Sparta's royal house, took control of the government, and established a constitution based on the Cretan model, which became one of the longest lasting in the Greek world. He instituted land reforms and other measures aimed at cleaning up a corrupted society, "whose whole wealth had centered upon a very few," wrote Plutarch.

Lycurgus launched his reform by posting 29 armed volunteers to spread fear in the marketplace of Sparta. An important part of these reforms was a new monetary system. He made it illegal to use gold or silver as money and legislated that a number of elongated iron discs would be used for money instead.

Furthermore the iron discs were purposely made useless for anything else by dipping them in vinegar while they were hot to make them brittle. The "intrinsic" value of the pieces was purposely destroyed. Each iron disc weighed just over ½ kilo, and was called a Pelanor, because they were shaped like small cakes (pelanoi).

The Pelanors were a form of "Nomisma," as described below by Aristotle. According to Heichelheim some have "been excavated from the deeper levels in Sparta."[50] However, to date, the American Monetary Institute has been unable to locate any specimens at the British Museum, the Athenian Numismatic Museum, or the Smithsonian Institute.

Lycurgus' money system appears to have been based on law, where the value of the money was probably determined in part by decree, and mainly by the legal number of units in circulation, not by the commodity of which it was made. Alexander Del Mar, one of the few researchers to have understood it, calls it a "nummulary" system. Today we can call it a fiat or token money system, where the total amount of money allowed into circulation is regulated by law and where the value of these symbols serving as money depends on limiting the number in circulation.

In Sparta's case it seems to have worked well for about 3½ centuries, during which time she became a premier Hellenic power. It was abandoned about 415 BC, after Sparta embarked on campaigns of foreign conquest and captured large amounts of gold and silver. The historian Polybius recounted:

"But once they began to undertake naval expeditions outside the Peloponese it was evident that neither their iron currency nor the exchange of their crops for commodities which they lacked...would suffice for their needs."[51]

Such a fiat system, based on law, was normally limited to domestic boundaries, much as the older tool money had its social boundaries.

The misnamed "Classical" economists - the Adam Smith school - with their primitive materialistic view of money as gold and silver commodities by weight, have had great difficulty understanding the Spartan money.

For example, the numismatist François Lenormant doubted the Pelanor tradition: "But we can't believe he dipped it in vinegar to render it useless, because only by its value as merchandise, given and accepted for its metallic value could the bars circulate and serve as exchanges...its only originality is in its use of iron in place of other metals."[52]

Most 20th century economists are unaware of Sparta's fiat money system. A few, unable to envision the abstract nature of money or perhaps concerned that this money represents a threat to their monetary theories, claimed that the vinegar treatment would have been ineffective in ruining the iron.

Over time token money systems like Sparta's were adopted by some other city states and records of some of them have survived:

In Ionian Clazomenae (20 miles west of present day Izmir, Turkey), thin iron discs were stamped and used for money as evidence of debt, like a note promising convertibility into money. This would not have been a true nomisma system, since Clazomenae's iron discs were evidence of debt, and thus were not money itself.

In Byzantium, before it became Constantinople, iron money was in use in 431-404 BC, where it was called "Nummus Spartaeus," and "sidareos." It consisted of discs of thin sheet iron impressed on one side. Del Mar called it "the best substitute for paper notes which the condition of the mechanic arts permitted at that time." But in this case, Boeckh insists that the iron was not an evidence of debt, it was the money itself. In other words they were an advanced money system.[53]

Athens also briefly used fiat systems, first in a war emergency situation in 407 BC, when she melted the partly copper statue of Victory for coinage. Then again in 390-350 BC, "Timotheus issued a numerary money composed of copper discs highly overvalued. These were receivable for all payments, the public dues included, and were nominally redeemable, at an indefinite time, in silver," wrote Del Mar.[54]

Syracuse, on the island of Sicily, used a token money of tin at four or five times its commodity value, and of silver at about double its commodity value under the rule of Dionysus from 387 BC. A few years later, the ruler of Syracuse hosted a visit by Plato, raising the possibility of his involvement in the monetary system.

Most importantly, Rome also adopted a nomisma system using copper, and making little compromise with the East. In Chapter 2 we show why an awareness of this concept of money is necessary to understand Roman history. Subsequent chapters will demonstrate its continuing importance in the development of the Western world.

ARISTOTLE EXPLAINS "NOMISMA"

Money in Greece came to be known by the word NOMISMA because it attained its authority by law (or binding custom) which in Greek is "nomos." Aristotle (384-322 BC) gave the culmination of Greek thought and experimentation on money:

"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 (nomos)** and it is in our power to change it and make it useless." And he continues:

"Now the same thing happens to money itself as to goods - it is not always worth the same; yet it tends to be steadier...money then acting as a measure makes goods commensurate and equates them...There must then be a unit, and that fixed by agreement" (Ethics 1133).

There is much more here than meets the eye; Aristotle's brief description has never been bettered, and is seldom equaled.

Aristotle's strong condemnations of usury also take on greater relevance in light of our analysis of the ancient Oriental system's usury error, for Aristotle's main argument against usury was that money is sterile and not capable of "breeding" interest.[55] In Chapter 7 we discuss this in greater detail, and why some twentieth century economists are agreeing with Aristotle's conclusions on usury.

Significantly, the term "nomisma" is seldom found in early Greek texts. Leslie Kurke, of U.C. Berkeley, finds it in Herodotus in the 400s BC, but not again until Aristotle, over a hundred years later. In harmony with our view that monetary history has been censored, Kurke believes the concept of nomisma was suppressed in an ongoing struggle between oligarchic forces arrayed against public money, and the developing, more democratic, public sphere of the Greek Polis, which introduced and controlled this new payment mechanism.[56]

As we shall see, this "private vs. public" battle for the control of the money power is a recurring theme throughout history, and continues to this day.

PLATO AND ARISTOTLE AGREE ON MONEY

Although the Platonic method was overly theoretical, without as much regard for history and the facts as the Aristotelian school demanded, Plato (427-347 BC) and Aristotle closely agreed on the nature of money.

In the Socratic dialogues on wealth (*Eryxias*)[57], Plato tells us "The Carthaginians used money of this sort: something which is the size of a 4 drachmae coin is tied up in a small piece of leather. What it is no one knows but the makers. A seal is next set upon the leather [by the state] which then passes into circulation."[58]

Plato mentions that in Ethiopia engraved stones were employed as money, and confirms that Sparta's system consisted of iron money which "had been rendered useless," referring to it as based on the "Doric" system.

Plato favored a fiat money system for his "Republic." His strict monetary regulations show an awareness of serious problems with the "precious metal" moneys. In Plato's money system:

"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...."[59] And:

"Then they will need a market place, and a money-token for purposes of exchange."[60]

Both Aristotle and Plato noted the paramount monetary principle - that the nature of money is a fiat of the law, an invention or creation of mankind and society, rather than a commodity.

This important principle, part of a lost science of money, must now be relearned in the 21st Century - the 3rd Millennium - in order for humanity to achieve the monetary reform necessary to move back from the brink of nuclear disaster, to move away from a future dominated by fraud and ugliness, and to progress toward a world of justice and beauty.

## *Notes to Introduction and Chapter 1*

*Full publication details are found in the Selected Bibliography.*

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[4] Kathleen Freeman, *Work and Life of Solon*, (Univ. of Wales Press, 1926), p. 92 & see Ch. 4.

[5] William Ridgeway, *Origin of Metallic Weights and Standards,* (Cambridge Univ. Press, 1892), p. 234.

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[32] Johannes Hasebroek, *Trade and Politics in Ancient Greece*, (New York: Biblo & Tannen, 1965), p. 158.

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[39] Freeman, cited above, Chapter 4. For a detailed discussion of ancient standards, see also Charles Seltman, cited above.

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[45] Freeman, cited above, pp. 60-92.

[46] Heichelheim, cited above, p. 253. (Pollux VIII 130) is his source for this.

[47] Heichelheim, cited above, on monetizing products and landholding limits, pp. 282-6.

[48] Heichelheim, cited above, pp. 282-7. Quoting Pollux VIII, 130, p. 253.

[49] Plutarch's *Lives*, section comparing Lycurgus to his "parallel" Numa.

[50] Heichelheim, cited above, p. 214.

[51] Polybius, Book vi, extract iii, Chapter I, as quoted by Del Mar, *Money In Ancient Countries*, cited above, p. 340.

[52] Lenormant, cited above, vol. 1, pp. 218-20.

[53] Del Mar, *Money in Ancient Countries*, cited above, p. 166. See also Boeckh, cited above, pp. 768-9.

[54] Del Mar, *Money in Ancient Countries*, cited above, p. 171. See also Boeckh, cited above, p. 762-69.

[55] Aristotle, *Politics*, 1258b.

[56] Leslie Kurke, *Coins, Bodies, Games, and Gold,* Princeton University Press, 1999, p. 68n10. See her introduction and conclusion.

[57] *Dialogues of Plato*, trans. B. Jowett, (New York: Random House, 1937), Socrates dialogue Eryxias, p. 814, Steph. # 392-400. The Phoenicians used a similar leather pouch system.

[58] Consistent with our theme on the muddling of monetary history, when our German language editor checked footnotes he couldn't find the *Eryxias* dialogue of Plato. Checking at the SUNY Albany Library, I found that of four "complete" works of Plato, only two contained the *Eryxias*. The Library's "complete" works of Plato in German lacked *Eryxias*. Efforts to eliminate this rare ancient commentary on money as a work of Plato at this late date seem strange and inappropriate especially since the monetary commentary in Eryxias is fully consistent with Plato's monetary proposals in *The Laws.*

[59] *Dialogues of Plato*, cited above, section on *The Laws*, Steph. #742.

[60] *Plato's Republic*, trans. Jowett, (New York: Black, Classics Club, 1942), p. 270 (371B).

# CHAPTER 2

# ROME'S BRONZE NOMISMA - BETTER THAN GOLD

**"The Roman adoption of a national and exclusive copper coinage produced a revolution in the monetary system of all civilized nations."**
**Humphreys, *Ancient Coins and Medals***

In the war for control of society's money power several battles have been fought in the arena of Roman numismatics. Today the field is littered with the debris of these skirmishes. Indeed, some principles involved in the early Roman monetary system still threaten the validity of the political economist's "modern" economic and monetary doctrines. That's why I have stated the conclusion they were avoiding, as the title of this chapter.

When Lycurgus established iron nomisma in Sparta, to the west at Rome a new culture was beginning which would come to dominate the Mediterranean world, both militarily and monetarily. The Greeks were artistic; the Romans practical. Greece faced east; Rome faced west. So go the stereotypes of these cultures. But one thing that truly set Rome apart was her money system.

The growth of Rome from a small village in the 8th century BC, to creator and ruler of the WORLD ORDER, resulted in large part from her bronze money. In the east, gold and silver were being coined as money, but Rome chose to base her money on bronze - a mixture of mainly copper, some tin and a bit of lead. And not just commodity bronze, but monetized pieces called the Nummi, or Nomisma.

I ask the general reader not to be discouraged by the level of detail this chapter presents, for it is needed to clarify some questions in the field, for specialists. Also, describing nearly two thousand years of Rome's monetary history in just a few pages requires that we apologize in advance to numismatists and historians alike. Most generalities will have exceptions. Thousands of years have elapsed; documents and other evidences are rare. If it is brought to our attention that any of their researches of particular significance to our main themes have been missed, they will be noted in future printings.

## ROME WAS MONETARILY ISOLATED

The decision of Numa, Rome's second King (716-672 BC), to institutionalize the use of bronze instead of gold and silver for money had far reaching consequences. Copper would be easier to get since much of the precious metals were stored away in eastern temple establishments.

But even more important was the disenfranchisement of the gold/silver hoards, and therefore much of the power of the eastern temples and merchants. This wouldn't be total because their gold and silver could still be traded in Rome as merchandise. But without the monetary power, gold would be limited to jewelry use and to Rome's needs in foreign trade. Thus the ability of the eastern temples or merchants to control or disrupt Rome's money would be greatly reduced and Rome would have a better chance to control her own destiny.

When over 2,000 years later, the United States rose to become the dominant world power, we didn't have this advantage of monetary independence. But during both of the two great crises of America - the Revolutionary War and the Civil War - monetary systems completely independent of Old World Power were temporarily erected - the Continental Currency and the Greenbacks. And though both have been harshly criticized, these independent currencies saw America through the crises, and served her well.

Rome's monetary decision was probably not accidental, for Numa was renowned for his high intelligence. Was it a conscious way for Rome's leaders to reduce outside influence? Numa was from Rome's Sabine territory and considered himself a descendant of the Spartans. He inaugurated new religious institutions such as the Sacred College and the Pontifex Maximus, which existed throughout Rome's history and continue today in the Catholic Church. It's notable that when Plutarch, the historian priest of Delphi, described Numa in his classic work *Parallel Lives*, he designated Numa of Rome and Lycurgus of Sparta as parallels.

At first Rome's monetary independence had only a domestic effect:

"The busy farmers of the (Roman) plain seem all the while to have cut themselves off from contact with the Phoenician traders who so constantly bartered with the neighboring cities of Etruria," wrote Tenney Frank in his *Economic History of Rome.*[1]

But as her power grew the policy gained international significance:

"The Roman adoption of a national and exclusive copper coinage produced a revolution in the monetary system of all civilized nations; for as the Roman conquests spread we find the gold and silver coinages of other countries disappearing and the Roman copper with Roman weights and measures taking their place, and that with a rapidity truly astonishing," wrote Humphreys in *Ancient Coins and Medals*.[2] No, this is not an example of "Gresham's law;" of "bad" money driving "good" money out of circulation. That process only occurs when two moneys that have the same legal value, contain different commodity values, as discussed in Chapter 12.

Rome had precious metals and could probably have used them for money if she wanted. Numa established a goldsmith's guild as one of Rome's early corporations, and later gold and silver bars were cast and stockpiled in her treasury. But Livy says "marked bronze pieces were the only legal tender in 406 BC...although other metals were available in large quantities, and were even cast by the State."[3]

When under siege by the Gauls in 389 BC, Rome agreed to pay a ransom of 1,000 pounds of gold to cease hostilities. According to one over-dramatized account, while it was being weighed out, Camillus mounted a counter-attack and defeated the Gauls! Pliny mentions 4th and 3rd century BC laws that forbade precious metals mining in Italy. Rome may have discouraged their production.[4]

Humphreys summed it up:

"As the Spartans…are said to have adopted iron money, the Romans, who have been otherwise compared to that people, adopted copper in contempt of the gold and silver of their neighbors, which they were acquainted with but would not adopt…foreign money of gold and silver circulated in Rome from the earliest period."[5] But these coins were not money in Rome; they were merely merchandise.

## ROME'S TRADITIONAL HISTORY IS BEING RE-VALIDATED

There has been a pseudo scientific bias among some scholars to discard Rome's early history as "fabulous" and "legendary" in the same way that misguided antiquarians denied the existence of Homer's Troy until Schliemann uncovered that ancient city in 1870. But today a more sane view is beginning to prevail:

"...it is not necessary to be convinced a'priori of the inaccuracy of the annalistic account..." wrote Bloch in *The Origin of Rome*, "(T)hanks to pottery found on the spot, excavations have been able to show that the oldest layer, corresponding to the first occupation of the site, belongs to about this date (mid 8th century BC)...Excavations have amply confirmed the picture painted by Livy...There is no doubt that all the archaic rituals attributed by Livy to the eighth or seventh centuries...can be traced to the earliest periods of Rome; the archeological evidence and (comparison of rites)...leave no room for doubt."[6]

Archeologists have even found some of the hut foundations in the original settlement area on the Palatine hill, as well as the later foundations

2a.

of the "Regia" palace built by Numa.

"The ancients never doubted the existence of the Roman Kings," wrote Peruzzi, stressing that fresh data show "the substantial reliability of the Roman tradition as a whole...The kings of Rome are historical characters who mark definite chronological periods."[7]

Numismatists-especially from the "English"-school have been very quick, sometimes even eager, to discard monetary evidence in ancient Roman literature when it conflicts with their viewpoint. In doing this they have insisted that Rome's money system is a much more recent creation than the texts indicate, partly because of the limited evidence of the coin hoards that have been found, and the difficulty of dating them.

Understandably they are concerned with coins first, and with the analysis of ancient Greek and Latin texts, only second. But also their monetary ideas have been shaped by the dominant Adam Smith school, which tended to regard pieces of gold and silver as the only "real" money (see Chapter 12). Since early Roman money was based on bronze and on law, confusion and misunderstanding easily occurs.

A hundred years ago Del Mar made this harsh criticism:

"Such a school (the political economists) exhibits no claims to be regarded as authorities on either the principles or the history of money. They have been taught to look upon money as so much metal, whereas it is plainly an institution of law. It is as though measures of length and volumes were regarded as so much wood, because it has been found convenient to make yardsticks, pecks and bushels of that material."[8]

While views are slowly changing, in some ways those pre-conceptions still linger, though the world's economies have functioned without even the pretense of metallic money for decades, and for centuries have been dominated by paper money and credit. Hopefully this book will help end those prejudices, and certainly the 1985 publication of Peruzzi's *Money in Ancient Rome* will guide serious researchers to a more accurate appreciation of the ancient texts.

Our approach takes the ancient monetary references seriously, in their proper context, unless disproved archeologically. *Especially when they describe monetary events that would have been called for by Rome's known political changes.*

I also caution against expecting a linear development, progressing over time from a primitive towards a more advanced monetary system. As the reader will find in our chapters on American monetary history, that is not guaranteed, or necessarily even probable. It's not unusual to find that an earlier system, based on law, was far superior in terms of concept, than later ones that then tended to become dominated by special interest power factions.

## KING NUMA'S REFORMS - A BRONZE STANDARD AND A NOMISMA UNIT

The initial political development - the foundation of Rome - would soon call for a monetary event - the establishment of an official standard or measure of value. The texts tell us this was given by Numa Pompilious, the 2nd King of Rome.

Before Numa, bronze already had a crude monetary function in Rome, where metal lumps of it ("Aes rude") were traded by weight. (For clarity, we choose to capitalize AS, Aes, Asses and Ace throughout.) By the time of his accession, it had progressed to include cutting weights of bronze from thin stips, to arrive at exact amounts. Numa's inauguration date (716 BC) is therefore the latest possible time for bronze to have been given a monetary function in Rome, according to the evidence of the ancient texts. Later, during and after Numa's reign, the money system progressed to cast bronze, and marked bronze bars, and over time it became an abstract system where limited issues of coins had a value much higher than their commodity content.

Earlier attempts to discard Numa as a mythical figure are being abandoned. Emilio Peruzzi's *Money in Ancient Rome* notes that:

"It is certain that Suetonious reported a Roman tradition according to which Numa had been the first to give his subjects monetary bronze, and called such pieces nummi."

Peruzzi at length establishes the reliability of the 354 AD "Chronographus" text on Roman history.[9] While he can't identify the now lost sources which the Chronographus author depended on, Peruzzi notes that the records of the Arval brotherhood founded by King Romulus could still be perused in Rome after 382 AD, and the very ancient Lupercal (wolf) cults which pre-dated Rome's founding were not abolished by the Senate until 496 AD. Either could have been the source.

Peruzzi cites Chronographus' description of Numa's gift on ascending the throne as:

"Indisputable evidence Numa Pompilious 'gave aces of leather, and to the soldiers 2 ½ Aces cut in bronze.'"[10] But just what does this mean? The Roman Ace or Aes or AS, was 12 ounces (one Roman Pound) of bronze, about 325 modern grams. Some later texts would report that the

Asses were signified by leather, wooden or clay "coins."[11] This is really not so unimaginable as it has sounded to some, even to Peruzzi. Milne noted that: "(I)n the Greek trade world nomismata of leather are recorded: in Assyria Sargon issued half shekels of lead: clay tokens are found at Palmyra and in Mesopotamia..."[12]

However, it's unlikely that such an advance toward abstract money would have been made in Rome at that early date, and with the present state of evidence, we will go with Peruzzi's careful linguistic analysis of the various texts: that the other items referred to, leather, wood and clay were being valued in bronze rather than representing it.

WHY THE "2 ½" AMOUNT?

We should ask: why does a King bother with 2½ ? Why not leave it at 2, or go to 3? The next King, Ancus Marcius (639-616) also gave a "donatium" of 2½ Aes to the soldiers, on celebrating his rise to the throne.[13]

At the time of Numa's accession, there may have been a need to reconcile two different measuring systems - one counted in tens and the other based on twelve. As part of this process Numa added January and February to the Roman Calendar, extending it from 10 to 12 months.

The "2½" unit could have been a way to reconcile the weights and values of the two systems, there being four such 2½ "units" in a ten count, and very close to ten units in a 24 count (double twelve).

THE "NUMMI"

It was probably at a later point in Numa's reign that nummi or nomisma were introduced. The ancient texts tell us that Numa began the casting of rough bronze bars, with a substantial admixture of iron which gave them a reddish appearance.[14]

Such pieces would be the precursors of the early bronze bars marked with a branch-like design called "ramo secco" - dry branch. The term nomisma can just as well refer to a cast bar as to a coin. For example Sparta's 1½ pound iron pelanors were called "noumisma" by Xenophon.

Numismatists assume that this "nomisma" represented a Roman Aes, or 12 ounces of bronze. But since the term nomisma was specifically applied to the giving of 2½ Aes, in our view it more likely represented 2½ Aes or 30 ounces of commodity bronze. Numa's major reform would then have been the adoption of the nomisma, a monetary unit representing 2½ pounds of bronze - 2½ Aes.

The weights of these earliest bars found in ancient hoards range from ½ pound to 7 ½ pounds.[15] Later they were cast at a more standardized 5 pounds. Note the potential relevance of the 2½ unit to these weights.

If Numa's name is connected with his monetary innovations, it would mean that he was named after them rather than the money being named after him, since the term nomisma denoting money was of Greek origin. The monetization of Bronze under Numa would indicate some state control over that industry and indeed one of the early corporations (the third) that he organized was a bronze smith's guild.[16]

## KING SERVIUS' MONETARY REFORM: MARKED BRONZE BARS

Servius Tullius (578-534 BC), the sixth of Rome's seven Kings, built the great "Servian wall" around Rome, which continues to impress visitors today. He first subdued the adjacent Etruscan society and then extended Rome's dominance over the nearby Latin peoples, establishing a Federation of the Latin nations with the Temple of Diana on the beautiful Aventine Hill as their common shrine. Your author had the good fortune to live on that hill for a time.

In this second political phase, the expansion of Roman influence and control required changes in government organization and in the money system. Again the ancient texts provide descriptions of the King's actions.

For military and taxation purposes Servius organized Roman citizens into a more regimented society divided into six classes by wealth, to determine how much they paid in military dues. Members of the first class had assets valued at over 100,000 asses; members of the sixth class had less than 11,000 asses. Wealthier citizens had to contribute more, and the first two classes fielded over half the "Centurys" composing the Army.

This Latin Federation required a more sophisticated money system. While the Latins were somewhat accustomed to using bronze, cattle and sheep had also served as a measure of value. The bronze bars were now cast in a more pure form, measuring 6½ x 3½ inches and standardized at about 5 pounds each. They are found in ancient hoards in and around Rome.[17]

Servius is credited as the first to mark these bronze bars, most likely initiating the ramo secco design, followed by a kind of fishbone design, and after Servius, the images of animals were used.[18] These bars are called "Aes Signatum" by scholars today, but that's a modern term, not from Rome. According to the texts, Servius also cast some bars of

*2b.* Ramo secco type fragment, 102 mm long.

*2c.* Flying horse design; 154 mm long.

**Types of Aes Signatum. The "ramo secco" (dry branch) design type, at top, has been definitively dated to the reign of Servius Tullius (578-534 BC). It evolved into a "fishbone" pattern (not shown). Eventually Aes Signatum had animal patterns. These pieces generally weighed 5 Roman pounds.**

silver, but none have been found.[19]

Perruzzi tells us that this money affected a large part of Italy and was "a legal tender - not a doubt about it…With the adoption of the Aes Signatum under Servius, bronze already used with a monetary function, becomes legal tender in Rome,"[20] and he noted that:

"…Aes signatum circulated widely, well beyond the frontiers of central Italy: pieces of it reached as far as south western Sicily, where a fragment has been found [at Bitalemi] associated with Greek pottery datable to 570-540 BC."[21]

The "Bitalemi" dating is highly significant for it corresponds exactly to the Servius time period. It dates the bars of Aes signatum about two centuries earlier than some numismatists of the English school have until now been willing to acknowledge, and it is not the earliest of them.[C]

## HOW SERVIUS MONETIZED THE BRONZE PIECES

The most intriguing part of Servius' monetary reform was in connection with his new census system, as related in detail by Dionysius of Halicarnassus and Lucius Piso. Servius divided the city and the countryside into regions and required everyone of the same district "to contribute a certain coin per head, men paying one kind, women another, and children yet another...and to know the number of those living, newly born and died and came of age, he prescribed which coin relatives were to contribute for each one - into the treasury of Juno Lucina for the newborn, into that of Libitina for the deceased, into that of Juventas for those arriving at manhood. From those coins he would know every year the total of the inhabitants and which of them were of military age."[22]

Rudi Thomsen, in his work *Early Roman Coinage*, relied on misinformation from another numismatist, Ridley, and simply discarded this written tradition as "bearing the stamp of legend." But Peruzzi conclusively demonstrated Ridley's error.[23]

We are not told what these nomisma consisted of. They could have been the bars - the Aes signatum. Or the inconvenience of such large pieces may have led to their being cast in smaller, more coin-like form.

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[C] For numismatists: "The technical inspection of the (fragment) enables us to determine that the fragment does not belong to the most ancient class of such items: this ingot has a more rectangular and regular shape; the edge flashes (due to the imperfect contact of the two valves of the mould) which are a feature of earlier specimens have disappeared: the mark of the 'ramo secco' itself is regular and of neat outline." L. Breglia, "Annali", as cited in Peruzzi, p. 217.

Their value was either an Aes - a pound of bronze, as is generally assumed, or the 2½ Aes we have postulated.

## THE ROMAN AES GRAVE

The first type of coins used in early Rome, called the "Aes grave," were large round 9 to 10 ounce discs cast of the same material as the bars. This is the only coinage found to date that could conceivably correspond to the nomisma. The earliest among these Aes Grave are the deity Janus double headed coins. Over time they became smaller and lighter while keeping similar designs, with what looks like the number 1 on them. But one what? Probably one nomisma.

*2d.* Aes Grave of 222 BC, or earlier; about 10 Roman ounces (.85 Roman pounds or 274 grams); 61.8 mm.

**Aes Grave began as large cast discs of the same material as the Aes Signatum. These coins most likely developed from the nomisma introduced by Servius for his census counts, and the number "1" probably represents one nomisma, valued legally at 30 ounces of bronze. The Roman pound weighed 320-330 modern grams.**

*2e.* Aes Grave with value mark above the Janus heads.

Up to the present, archeological finds of these coins cannot be dated to such an early time as Servius, and may have developed as a legal institution of the Roman Republic, not the monarchy. Numismatists have noted the uniqueness of the Aes grave but don't agree on dating them. Burnett wrote, "There are no obvious forerunners in Italy for the Aes grave: it seems likely that the Aes grave of other non-Roman communities was itself derived from the Roman model."[24] Rudi Thomsen, perhaps trying to smooth the generally antagonistic tone toward Rome of the English school (to which he did not belong), still managed to put his foot in his mouth:

"The Romans...actually made an original contribution on one important point. About 289 BC they invented the Aes Grave."[25]

This unfortunate attitude still permeates the study of Roman numismatics. Some of those responsible will be taken to task below. But the one hundred year old view of Alexander Del Mar, who truly understood nomisma, deserves attention:

"With regard to the Janus-faced circular copper coins (Aes grave), which Francois Lenormant ascribes to the period of the Gaulish invasion, B.C. 384...although these pieces are now regarded as Aces, they may have been nummi, afterward called sesterces, or pieces of 2½ Aces, the figure "1" upon them signifying one nummus instead of one Ace...That these coins were connected with the nummulary system of the Republic there can hardly be a doubt."[26]

## WHY DID NOMISMA CIRCULATE AS MONEY? - LEX ATERNIA TARPIA

About 84,000 persons were registered in Servius' first census, probably in 554 BC.[27] Dionysius called the coins "noumismata" and "a tribute imposed per head."[28] Servius had designated three temple treasuries to accept the per capita nomisma payments and failure to comply was made punishable by death and confiscation of property.

This is an ancient example of the primary monetary principle that an abstract symbol can be given value by accepting it for taxes. Later, under the Republic (from 509 BC) a Roman law, the Lex Aternia Tarpeia of 454 BC identified values for the coinage in terms people understood. Each Ace was 12 ounces of commodity bronze. The law fixed one sheep at 10 Aces, and one ox at 100 Aces. We think one Nomisma was 2 1/2 Aces. This is a documented example of Ridgeway's explanation in Chapter 1, of how the eastern temple cults earlier had established a value for a metal coin, by relating it to cattle.

On the model of Solon's Reform the same law extended the legal tender function to the animals themselves (one sheep = 10 Aces and an ox = 100), so that the animals need not be sold in a market, but could be tendered directly for fines; in effect establishing "floor" prices for the animals and indicating that the nomisma issues were quite limited.

Theodore Mommsen, the great 19th century German historian of Rome, believed that the Lex Aternia law indicated the limited circulation of coinage at that date (454 BC). The author's inclination is to agree that by then, almost a hundred years after Servius' institution of the Aes signatum, it is quite likely that the smaller, more convenient representational Aes grave would have been devised. Consider that the Lex Aternia laws were written upon the return of the two ambassadors Rome had sent to Athens to study Solon's legislation. Remember from Chapter 1 that an important part of Solon's remedies for Athens' were monetary reforms including the monetization of some agricultural goods, during the period of the introduction of coinage there. The Lex Aternia similarly does this in Rome for cattle and sheep.

Consider also the story as told by Livy of senators making what was called a "showy affair" by actually delivering wagon loads of bronze bars to pay army units in 406 BC. This description indicates that such delivery was not normal. Though Livy tells us that marked silver didn't exist yet, perhaps some smaller, less showy instrument such as the Aes grave nomisma were in use.[29]

## THE ROMAN REPUBLIC'S FIAT MONEY

"...the Roman monetary system was a numerary one, and the numismatic relics which have so long been regarded by the learned world as copper coins, were essentially irredeemable notes stamped (for lack of paper) on copper, and devised and designed to pass in exchanges for a much greater value than that of the material of which they were composed," wrote Alexander Del Mar.[30]

Because numismatists tended to view the value of a coin by its metal weight, when faced with unmistakable evidence that Roman coins were worth more than their commodity content, they apply the term "overvalued" to such coinage. But it's like calling a $100 bill overvalued, because of the low commodity value of the paper it is printed on. Thus Thomsen remarks:

"There was undoubtedly since the beginning of Roman bronze coinage an overvaluation of more than one third…(and in) the lighter series of Aes grave, this overvaluation was even increased (to double)…"[31]

But such terminology is too easily misunderstood. One may say the nine or ten ounce Aes grave coin, worth (Thomsen thought) one pound of bronze, was a third overvalued. But when that nine ounce disc has later evolved into a two ounce ("sextantal") coin, still valued at an "AS" - a pound of bronze, it would have been worth six times its weight, or be 500 % "overvalued;" and when it later became a one ounce ("uncial") coin, it was worth 12 times its weight. This abstract, legal nature of the system should be clearly identified.

Now consider if the value that the nomisma referred to is not one pound of bronze, but 2½ pounds as we postulate with Del Mar. Later, in the evolution of the struck bronze coinage, when they become identified by the term "AS," we agree that they probably then represented 12 ounces of bronze. That's what "AS" means, literally. No one knows just how nomisma and "AS" evolved in relation to one another, and the numismatists may not have been on the lookout for such clues, which could draw them even further from their concentration on metal. But Andrew Burnett discusses an interesting case:

"After 225 BC the (Roman bronze) system prevailed, and it quickly spread throughout Italy…In Sicily it co-existed with the Sicilian system whereby one talent of three denarii equaled 120 litrae; presumably therefore the AS, which circulated extensively in Sicily, was worth 2 ½ Litrae (pounds)"[32]

Therefore this possibility cannot be excluded for the "AS" at that time in Rome also.

Under the Republic, the nomisma's value as a pledge or representative token became several multiples of its bronze content value. For while it started out at 9 to 12 ounces, it probably had a legal value of 30 ounces of bronze. At some point, the "AS" unit of 12 ounces of bronze becomes the standard on which the coins are issued and the weight of the coins signifying an "AS" were then continuously reduced; to six ounces after the 1st Punic War (264 - 241 BC); down to two ounces in about 217 BC after the 2nd Punic war started (218-202); and down to one ounce at its end. Yet Del Mar noted that "Nowhere in Roman history do there appear any complaints of these reductions."

Under this bronze nomisma, republican Rome grew powerful, staying independent from Eastern power and blocking the easy establishment of Eastern financial beachheads on Roman soil. Under this bronze money, Rome developed and gave the world a system of law that is still

*2f.* **The "Romano" coinage. Rome's earliest silver bullion pieces weighing 7.58 grams, or 127 grains were used in "foreign" trade with the Greek towns in southern Italy from about 330 BC. They had no set value markings and did not circulate in Rome itself.**

This piece is from 275-270 BC; 7.355 grams; 21.8 mm.

*2g.* **About 240 BC, "Roma" coinage (weighing 6.55 grams) replaced the Romano issues, and were again not for use in Rome; and had no value markings.**

This piece is from 241-235 BC; 6.43 grams; 19 mm.

*2h.* **The "Quadrigatus", a later version of the Roma bullion coins began in about 225 BC, and weighed 6.77 grams. Again with no value marks and not for circulation in Rome.**

This piece, from 222-205 BC; weighs 6.604 grams; 22 mm.

consulted after 2300 years - a legal system separated from religion to a higher degree than seen before in antiquity. Del Mar wrote:

"Rome's numerary system lasted 200 years (he dates it roughly from 385 BC), during which all that was admirable of Roman civilization saw its origin, its growth and its maturity. When the system fell, Rome lost its liberties. The state was to grow more powerful and dreaded, but that state and its people were no longer one."[33]

Tenney Frank echoed Del Mar:

"Bronze was indeed the only metal coined at Rome…during the whole period of rapid expansion that made her supreme in Italy."[34]

UNIFICATION OF THE ITALIAN PENINSULA

In 338 BC Rome dissolved Servius' Latin Federation, constituted herself as its successor, and undertook the unification of the peninsula. This political and military activity required some monetary maneuvers, but Rome insulated her population from them:

"(W)hen Rome sent her armies into Campania…her generals found themselves in contact with…peoples who used silver currency. In order to buy army equipment from them it was necessary to have…silver money; and the soldiers must also have desired their pay in a currency…(accepted) where they were billeted. Silver was accordingly provided for use in Campania...Why the government did not bring this silver coinage to Rome during the fourth century it is difficult to understand…The scarcity of these coins on Latin soil…would seem to indicate that Rome did not encourage their circulation northward," wrote Frank.[35]

Frank thought Rome's first silver coins known as the "Romano" type began about 330 BC. Burnett places it from 310. This timing fits fairly well with Rome's monetary requirements for the conquest of the south. According to Burnett the Romano coins were succeeded by the "Roma" types around 240 BC, and these were followed by the "Quadrigatus" coinage about 225 BC.

These three silver coinages minted by Rome had an important feature in common: they had no marks of value but were bullion coins valued for their silver content. As such they were not part of Rome's regular monetary system, but were for use with "foreigners" - the Greek cities in the southern peninsula - and they are found mainly in the southern regions. This brings to mind the rules Plato established for his Republic, where citizens had token money for use with each other, but gold or silver were to be provided for foreign trading.

In contrast, from the beginning nearly all of Rome's bronze coins - the cast Aes grave and the later struck bronze coins - had value markings. With the unification of the peninsula the towns in the south began to mint bronze coinage based on Roman measures.

## ROME vs. CARTHAGE

It took until 266 BC for Rome to unify the Italian peninsula into a commonwealth - just in time to face Carthage's growing power. Carthage was a 9th century BC Phoenician colony on the north African coast, at present day Tunisia. She was originally established as a way station for importing metals from the western mediterranean back to Sidon and Tyre. Her language was Canaanite Hebrew and as she developed toward empire, dominating parts of nearby Sicily, conflict with Rome became inevitable.

In Arnold Toynbee's analysis, Carthage had occupied the African coast and only took possession of the hinterland farming areas from the native population from 450 BC, when she instituted a system of slave plantation farming. Carthage was a plutocracy:

"The prestige of the Carthaginian nobility was based above all on wealth," wrote the Charles-Picards.[36] She never developed a manufacturing industry but maintained a powerful navy to enforce her trading relations:

"The Phoenicians made their profits in the western Mediterranean not by selling home made manufactures, but from a middleman's trade and from finance - particularly by keeping the price of precious metals in the under developed regions under Phoenician control much lower than the price in the economically more advanced areas," wrote Toynbee, who concluded, "Carthage was parasitic."[37]

Interestingly, generations of English readers have been given a very different and more sympathetic view of Carthage by Christopher Marlowe's exceptionally popular drama *Dido, Queen of Carthage*.

## THE DESTRUCTION OF ROME'S MONEY SYSTEM IN THE PUNIC WARS

The great double war with Carthage (264-241 BC and 218-201 BC) placed severe stress on Rome's republican institutions and money system.

When the 1st Punic war began Rome's money system was composed of the various Aes signatum, the heavy and light cast Aes grave, and several types of struck bronze coinage; an AS became signified by a six ounce coin, described as semi-libral (half a pound).

But especially in the 2nd war, with Hannibal and his elephants ravaging the countryside, Rome was no longer able to insulate her domestic economy from the silver coinage. Carthage's long standing sophistication in manipulating gold and silver prices could thus translate into a military danger for Rome.

Burnett thinks Rome demonetized and melted down the earlier coinages in about 212 BC, soon after the 2nd Punic war began, and that virtually all coins circulating in Italy and Sicily were replaced with the new silver Denarius. But he couldn't fully explain it:

"It is not exactly clear why Rome adopted this aggressive new policy…"[38]

Roman coinage cannot be understood using only a commodity oriented concept of money, but the clues are there! For example Crawford makes a telling point about the ancient bronze bars before Servius:

"(B)oth types were highly ferruginous copper and would have been useless as metal without further refining."[39]

Only when one understands that it was not the bronze commodity that gave the money its value, but Rome's legal commitment concerning them, does it become clear that she could demonetize the coins in the hands of the enemy, or in towns wavering in their allegiance. Thus the old coinage could not be used to pay for military operations against her. In order to obtain new coinage, friends would either have to exchange the old for it within some time limit or perform vital services for Rome. This brings to mind Aristotle's description of money from Chapter 1:

"…it has the name nomisma - because it exists not by nature, but by law (nomos) and it is in our power to change it and make it useless."

If Burnett is correct about the demonetization, Rome did exactly that: the demonetization was a wartime measure to isolate Carthaginian power. With Carthage's experience in exploiting monetary weaknesses, Rome was forced to make a monetary response as well as a military one. But in doing so under desperate pressure, she made grave monetary errors.

INTRODUCTION OF THE SILVER DENARIUS

Unlike the previous silver bullion coins, the Denarius, minted at 72 to the pound of silver, was made a part of the Roman money system, with a marked value of ten Asses. Rome also minted silver sesterce, at four to the denarius. Thus each sesterce was worth 2 ½ AS, exactly the old nomisma's value. This inextricably linked the existing bronze coinage with the fate of the silver denarius. The word "money" comes from this coinage, which was minted at Rome's temple of Juno Moneta.

Much ink has flowed in numismatists attempts to understand how the Denarius was valued. Especially since it was long thought to have been introduced in 269 BC when the coin representing the AS was "libral" - almost 12 ounces in weight. Since the 1/72 pound silver Denarius was worth ten Asses, or 10 pounds of bronze, numismatists were dismayed when they originally calculated that the silver to bronze ratio would have been an impossible 720 to 1.

But they are treating the denarius as a commodity, when Rome had made it into money! At the time of the denarius' introduction in 214 BC, the Aes, or 12 ounces of bronze, was represented by a two ounce coin.


Denarius of 144 BC.
8.58 grams; 22 mm.

*2i.* **Note the value mark "10" or X on the Roman Denarius. Numismatists fought over dating their introduction, but neglected to examine and understand the legal, not metallic basis of the Republic's money.**

Victoriate of 205-195 BC;
2.59 grams; 15.9 mm.

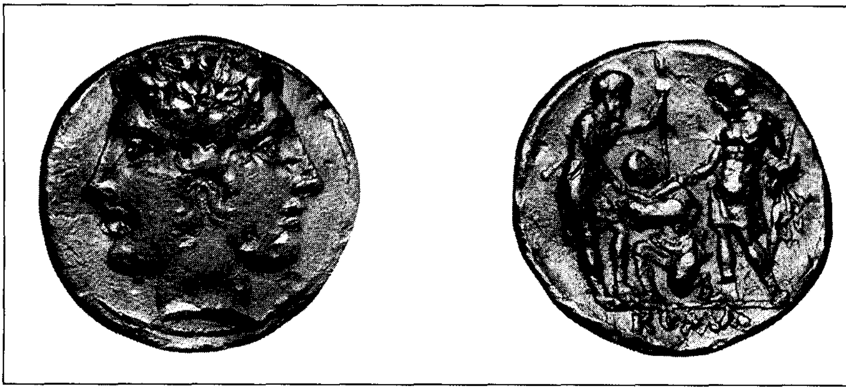
*2j.* **The Victoriates succeeded the Quadrigatus in about 214 BC for use in foreign trade. Their large issue concurrently with the silver Denarius shows the Denarius was not merely intended as a commodity coinage.**

**Victoriates weighed 3 scruples (3.4 grams, or 57 grains).**

In all likelihood, the Romans similarly overvalued the silver coin by about six times the value of its commodity silver content. Thus the ratio could not be calculated by comparing the weight of monetized silver to the weight of commodity bronze!

But not understanding this, when the numismatists pushed the denarius' introduction date forward to 214 BC and saw the bronze coin representing the AS then weighed two ounces, they got a more reasonable ratio of 120 to 1; using this method, not realizing they were comparing monetized bronze to monetized silver, they accidentally came up with the right ratio!

Considering the number of decades (over a century really) spent on



*2k.* **During the crisis stage of the 2nd Punic war, Rome borrowed gold jewelry from its citizens, and used its 4,000 pounds of treasury gold to mint its first gold coinages: The "Oath scene" coin (above) was to remind allies of their solemn oaths of allegiance (6.9 grams, 18 mm).**

*2l.* **The Mars/Eagle gold coins (below), a more warlike theme, were issued in denominations of one, two and three scruples (1.1 grams, 2.3 grams and 3.4 grams respectively). The 3.4 gram coin was 14 mm. in diameter.**

this "problem," one is tempted to say "serves 'em right" for ignoring Del Mar, who pointed this out about a 115 years ago in his *Money in Ancient Countries*.

Tenney Frank came closest to the solution in 1920, writing:

"When in 269 Rome reformed her coinage on a new system she was able to restore the old ratio of 120 to 1, which had for some years fallen to 20 to 1."[40] But he did not consider, as Del Mar did, that this could result from a six fold raising of the value of monetized, as opposed to commodity silver, or that the 20 to 1 ratio was most likely the result of comparing monetized bronze to commodity silver.[41] His 269 BC reflects the older dating estimates.

There is an important clue showing that Rome did not intend the denarii as mere commodity valued coinage. Contemporary with minting the denarius, she began issuing the silver Victoriates in large numbers. These were in fact bullion coins with no value marks; a replacement for the quadrigatus.[42]

ROME'S FIRST GOLD COINAGE

More than 500 years after her founding, in about 218 BC at the start of the Hannabalic crisis, Rome borrowed gold jewelry from her wealthier citizens and minted her first gold coinage, the "Janus/oath scene" pieces. Then again in about 209, she also used the 4,000 pounds of gold in her treasury for an emergency minting of the gold Mars/Eagle series.[43]

These events give an insight into the difficulty of reconstructing a history of Roman money from the physical evidence of the coin hoards. Thomsen estimated that just the 4,000 pounds could have made 256,000 coins; yet there are only 40 extant specimens of the "oath scene" gold coin, and only 108 specimens of the mars/eagle gold coin in existence.

Pliny later blasted the new gold coinage:

"The next crime committed against the welfare of mankind, was on the part of him who was first to coin a Denarius of gold. A crime the author of which is unknown...would that gold could have been banished forever from the Earth, accursed by universal report, reviled by the reproaches of all the best men, and looked upon as discovered only for the ruin of mankind."[44]

Pliny's anger seems strange today, but the life or death struggle with Carthage presented opportunities for an emerging plutocracy to abuse Rome's monetary system and achieve its own ends at the expense of their society. For example, there is the matter of how the jewelry loans were valued. Indications are that the gold was valued at a 20 to 1 ratio with silver, about double the normal ratio in Rome at that time.[45] This would mean that if repayment was later made in silver, at the normal 9 or 10 to 1 ratio, the lenders got a 100% profit, perhaps to make up for the value of the artwork lost to the melting pot.

## NUMISMATISTS BEHAVING BADLY

Though we generally criticize some numismatists for overemphasizing the trees and ignoring the forest, the following is not meant to denigrate the important research that such scholars are carrying out. In particular we are grateful for the work of Thomsen, Burnett, Kraay, Milne, Sutherland, Crawford, Jenkins, Grierson, and yes Mattingly, to name just a few. This chapter could not have been written without citing some of the important facts they have established.

But viewing Roman money as a commodity has led to a distortion of Roman history, and in one particular case, to what amounts to an attempted subversion of Roman numismatic study in a shameful display combining chauvinism, stubbornness and even a degree of deception. Unfortunately this episode must be described, since only one numismatist dared write about it, and readers deserve to know.

Harold Mattingly, an important numismatic scholar, nevertheless unfortunately brought insupportable prejudices to his Roman studies. Right from the introduction of his book *Roman Coins* his attitude is clear:

"As long as we find Rome content with her cumbrous native methods of exchange, we may reckon her as an undeveloped...as a barbarous people."[46]

What is such a statement doing at the beginning of a book on Roman coinage before any evidence has been presented? By page 3, this prejudice favoring his own nation's use of gold and silver leads to abuse of the subject matter:

"But all these early studies may be dismissed out of hand," he tells us, discarding the early traditions. He even attacks, without giving reasons, the genuineness of the 454 BC Lex Aternia Tarpei law.

Finally it degenerates into a preemptive attack and slur against some of those who might disagree with him: "Patriotic pride seems to play its part in insisting in every detail on the early greatness of Rome." This is a clear case of psychological projection.

The deception incident was brought to light by Rudi Thomsen in his monumental three volume work, *Early Roman Coinage*. In 1932

Mattingly and E.S.G. Robinson came up with a new timing for the issue of the Denarius, which had been thought to be 269 BC based on the texts of Pliny and Livy. Instead they placed it in 187 BC, reflecting in part Mattingly's tendency to re-evaluate downward the age of Roman coinage and institutions. Incredibly they based this mainly on their interpretation of a comedy of Plautus.

Then the discovery of the Minturno coin hoard was made, which proved the denarius was already in existence in 191 BC (later the Morgantina hoard would date the denarius to at least 211 BC). Thomsen (a Dane) wrote:

"Thus the Minturno hoard presented a serious obstacle to the new English chronology of the early Republican coinage of Rome...Seltman hurried to the rescue of his compatriots by asserting...that a 'careful perusal of Mr. Newell's account of the...hoard leads to no final conclusion.'"

Thomsen politely concluded that:

"(Seltman's) report of the contents of Newell's work, written with the purpose of supporting the Mattingly-Robinson chronology, is absolutely unreliable...above all he did not allow his readers to understand Newell's (viewpoint). Nevertheless in spite of its apparent unreliability it has never been attacked, and...no later scholar has subjected the Minturno hoard to a more profound scrutiny."[47]

All that to protect a four year difference in a 2,000 year old chronology! But how can one repair the loss of trust in the sincerity of the scholarship? Hats off to Thomsen for speaking up. Apparently Newell, an American numismatist, was too polite to raise objections.

## THE FALL OF ROME'S REPUBLICAN MONEY SYSTEM

Most 19th and 20th century economists, favoring gold and silver over copper, have misinterpreted the introduction of silver as progress. Only Del Mar recognized the use of silver and gold as a regression from legally based nomisma back toward more primitive commodity money.

Because of the various family markings on different Denarius issues, and the fact that a substantial portion of the silver taken as war booty went to the victorious patrician generals, Del Mar believed that the patricians issued the coins privately, under state license, reaping a 500% gain on their silver by having the state stamp a coin. Private issues are known to have occurred just before and during the civil wars of the 1st century BC.

Numismatists now view the earlier denarii as state issues. But the effect would have been similar if the Roman mint obtained silver from private sources at the full monetized value of the coins rather than its commodity value, giving the private supplier a six fold profit on their silver.

But even if we assume that the emerging plutocracy of wealthy patricians and equestrians in one way or another used the overvaluation concept necessary in a nomisma system to plunder Roman society, that by itself wouldn't have destroyed Rome's money system. Although the "profit" on overvaluation should (and may) have gone to the society as a whole, what broke the system was that the issues of these coins were unlimited.

LIMITATION OF ISSUE WAS IGNORED

Del Mar accurately noted that limitation of issue, the primary monetary requirement for a nomisma or numerary or fiat money system, was being ignored.

With the coinage of the Denarius, Rome had a mixed system that could not be lastingly defined. The Denarius was 73 grains of silver originally valued at 10 aces. The silver Sesterce, at ¼ the Denarius, was equal to 2 ½ aces, exactly the nomisma's value. But the value of the bronze coinage was a legal concept, not a market one, and depended on the limitation of its issue. The value of the Denarius and Sesterce, since their issue was unlimited, would eventually have a commodity-based market value.

In 168 BC, Rome obtained 75 million denarii worth of silver spoil from her conquest of Macedon. Significantly, the coining of Victoriates, Rome's bullion silver coin, was stopped at this point, in favor of the denarius. It appears to have taken about 60 years for the Denarii to stabilize with their silver commodity value.[48]

The bronze money could not escape the effects of unlimited silver coinage. Crawford says the production of bronze was temporarily stopped in 146 BC.[49] Burnett tells us that very little bronze coinage was issued after 150 BC.

In 141 BC, 63 years after the introduction of the denarius, it was revalued at 16 Asses. But was it the denarius, or the As (or both, perhaps one falling and the other rising) that was changed?

The limited data we have indicate that prices were not greatly affected. Burnett notes that from about 200 BC to 100 BC wheat prices approximately doubled, a tiny annual increase. Thereafter they remained stable until into the 1st century AD.[50] Crawford concurs that, although there were very substantial amounts of silver coined from 157 BC, only certain prices rose:

"The only area where inflation did occur is in the prices paid by members of the elite for luxury goods."[51]

Such goods came mainly from the East.

One way to estimate price rises is to look at army pay. Soldiers in the 2nd century BC got 110-125 denarii per year. A hundred years later, their pay doubled to 225; after another hundred years to 300; and by the 3rd century AD had increased to probably 600 denarii per year.[52]

The main effect of commoditizing Rome's money system was to destroy the institution of money based in law. Over time, the Republic lost control over its money system to the temple establishments and associated private merchants, those who could control the commodities. Over time their interests would take precedence or be advanced instead of the common good. But over time, a society's existence depends on protecting the common good. The growing concentration of wealth and privatization of power was an unstable process that did not self correct except in the sense of arriving at ultimately destructive results.

## THE END OF ROME'S MONETARY ISOLATION

Commodity money in Rome brought Rome's monetary independence to an end. It was similar to the Attic Drachmae of Greece and the Romans treated them as equal.

Once reduced to using a commodity weight to signify money, Rome would be on a never ending quest for precious metals - a great waste of resources and misdirection of energy. Even worse, since these metals were concentrated in eastern hoards, this handed power over to the east, to assert its ancient ways on Rome.

## THE EASTERN CULTS ENTER ROME

"The original Roman Numina (gods) had not been conceived of as being personalities in human form," they were more abstract, wrote Toynbee.[53] But as Roman money under eastern military pressure regressed from the more abstract bronze nomisma to concrete gold and silver weights, so did Roman religion.

In addition to the monetary disarray, the wars with Carthage took a heavy spiritual and physical toll. As news of Hannibal's victories reached Rome, it created severe psychological pressure, especially on the female population. On learning of the Lake Trasimene defeat (218-217 BC) "the women got out of hand," and after the disaster at Cannae

(216 BC), "This time the women in the city got out of hand in such numbers that the senators themselves had to…go out into the streets compelling (them) to go, and stay indoors, and silencing their lamentations," wrote Toynbee.[54] Almost one third of Rome's citizens were killed in those two battles!

Frazer's *Golden Bough* tells how in 204 BC, after enduring 16 years of Hannibal's rampage and 70 to 100 thousand dead, the war weary and desperate Romans were seduced by a prophecy concocted from the Sibylline books that:

"The foreign invader would be driven from Italy if the Oriental Goddess, the Phrygian 'Mother of the Gods' were brought to Rome... ambassadors were dispatched to her sacred city, Pessenius in Phrygia (at Mount Ida in Asia Minor). The small black stone which embodied the mighty divinity (Kybele) was...conveyed to Rome. In the very next year...Hannibal embarked for Africa...He could not foresee that Europe, which had repelled the arms, would yet yield to the gods of the Orient."[55] (Could anyone foresee it?)

The Phrygian Goddess' sanctuary was established on Palatine Hill. Some have argued that this cultic "success" in ridding Italy of Hannibal threw open the gates of Rome to a variety of Eastern cults:

"Success had…given the highest possible approval to the principle of the importation of foreign, especially Eastern, Deities," wrote Frederick Grant, pointing out that the Roman test of religion was not philosophical, but "Does it work - does it help the state?"[56]

But Toynbee took a more cynical view:

"The Roman 'Establishment' having consulted the Sibylline Books had to do what the Books (interpreters) told them to do on this occasion, but this recommendation was an indiscretion which the 'Establishment' did not forget. It did not ever allow the Books to recommend the introduction of any other foreign divinity after that."[57]

Rome later extinguished the Dionysian/Bacchan cult in 186 BC because it wasn't officially authorized, showing that the State could still determine which gods Roman citizens could worship.

Eventually Scipio Africanus, Rome's greatest general, though outnumbered and out elephanted, defeated Hannibal in 202 BC and destroyed Carthage's power, but the warfare had already helped bring down the money system and Roman justice with it. Once Eastern cults got in, they would further alter the mind and manners of Rome.

## THE EMERGING PLUTOCRACY

The "commoditization" of Rome's money system dramatically accelerated the emergence of a plutocracy - a ruling order based on wealth. The commodities would by definition tend to be in the hands of the wealthy.

"We may infer that at Rome in 264 BC, this class was not yet in existence, and that it came into existence in the course of the first bout of the Romano-Carthaginian war, thanks to the lucrative contracts...," writes Toynbee, and he described how inefficiencies in the Roman city-state organizational form made it easy to take advantage of the wartime emergency. According to Toynbee this business class was essentially identical to the new, no longer militarily based, Equestrian Order, formally composed of 1800 members - the 18 "Centuries" organized by Servius Tullius.[58]

Henderson's study of the Order's origins reasoned that:

"A new money class thrusting rapidly to public estate in an ancient society, needed the enhancement of symbols and titles...It was natural to borrow the name of the old Roman cavalry with its association of high rank..."[59]

Toynbee wondered aloud where the money came from:

"By the date of the (2nd Punic war) there were evidently already significant accumulations of capital in the hands, not only of the Roman 'Establishment,' but also of a non-Senatorial business class. This capital may have been the fruits of profits made during the (1st Punic war)...Whatever its origin was, its existence is proved by...the financing...of the enormous costs of the second bout. Contractors commanded sufficient reserves to make deliveries to the Roman Government on credit from 215 BC onwards..."[60]

*Our hypothesis that silver was provided to the mint at a six fold overvaluation can help to explain where the money came from. And the timing also works.*

No doubt some of the loans of money and gold jewelry were made in a patriotic spirit, but the overall picture is of a plutocratic class promoting its interests at the expense of Roman society.

For although Rome was hurting financially, the loans were being repaid even before the war was over. Then immediately upon defeating Hannibal, there was a political thrust to start a new war with Macedon. Apparently those benefiting from the warfare didn't want any interruption to their profiteering. The move was at first rejected, but a year later in 200 BC a major war was started with Macedon which lasted till 168 BC, giving no breathing space to Rome's citizen farmer/soldiers.

## THE RISE OF LATIFUNDIA

The new wealth amassed through monetary mischief and war contracts soon entrenched itself in ownership of large plantations known as latifundia, converting the fleeting monetary liquidity into permanent land holdings.

Hannibal's fast cavalry raids had made field work dangerous, forcing farmers into urbanized industrial labor, especially in war industries. Many had to abandon Italy permanently for Greece. Rome's primary demand on her citizens had been military service. But the lengthy and unpredictable overseas duty took the citizen farmers from their land and reduced their ability to hold onto it.

Italian agriculture, which had consisted mainly of small peasant holdings, soon became a mixed system of large scale migratory herding between lowland and more mountainous regions, combined with large scale capital intensive plantation farming. The new capitalists and the old aristocracy invested in these activities, which were operated with the slave labor that became available in large numbers from the warfare. Between 264 and 146 BC, the number of new slaves available can be estimated at over 300,000.[61]

While the "opportunity" to use the available Roman owned land, the "ager publicus," was theoretically open to all citizens, in actuality only the wealthy could take advantage of the possibility. This left the ordinary citizen farmer out in the cold:

"The new Italy is a paradise for fruit trees and for profiteers and a comfortable berth for oxen, but it is a purgatory for evicted peasants and a hell for imported slaves," wrote Toynbee.[62]

## THE GRACCHAN REVOLT

"It was a young aristocrat Tiberius Gracchus, the friend and associate of a group of moderates that read Stoic philosophy…who had the courage and faith to attempt agrarian reforms which seemed to promise social and political amelioration…," wrote Tenney Frank.[63]

Tiberius was elected Tribune in 133 BC, with the idea of enforcing the old Licinian law which limited the use of public lands to just so many herd animals per person, and just so much acreage per person. The law was being ignored as the wealthy gained control over the land. Tiberius sparked a movement which lasted 100 years, until Augustus' reign. Plutarch relayed his words:

"The savage beasts in Italy, have their particular dens…their places of…refuge; but the men who bear arms and expose their lives for the safety of their country (have) nothing more (than) the air and the sunlight, and having no houses or settlements of their own, (must) wander from place to place with their wives and children…They fight and are slain…to maintain the luxury and wealth of other men…They are (called) the masters of the World, but…have not one foot of ground which they can call their own."[64]

In 133 BC, Tiberius Gracchus passed a law to take back the illegally occupied lands, and distribute them to landless Romans. Though he was murdered within the year at the instigation of the Senate, the pressure continued, and ten years later his brother, Gais Gracchus, was elected Tribune to carry the program forward. He too was killed in 121 BC, in a riot. The revolt had only limited success, and the process of concentration of land ownership soon resumed, but this Roman family raised a standard of justice still remembered today.

## GROWING POLARIZATION

Wealth continued to concentrate, and injustice grew. The resulting class warfare placed severe pressure on Roman institutions and public finances. Around 82 BC, Roman dictator Sulla, after defeating Mithridates in Asia, found the mint in need of metal and levied a tax of 20,000 talents on the Greek Temples in order to issue coins. Sulla was inspired to remark that:

"The man could not fail whose chest was replenished by the gods themselves."

The priests of Delphi tried to scare him off, reporting they were afraid to send the treasure he asked because the "Harp of God" emitted a clear sound when they touched it. He reinterpreted their "sign," telling them that God apparently approved of his levy.

## TAKEOVER BY THE CAESARS

The society was vulnerable to dictatorship. Rome's sacred establishment and Julius Caesar (100-44 BC) were getting ready. At age 27, Caesar, an accomplished astrologer, was elected to the church's governing body, the Sacred College. At 36 he was elected to the ancient position of Pontifex Maximus - its leader for life. At age 52, in 48 BC, after his victory at Pharsala over Pompey, Caesar went to the Temple of

Jupiter Amon at the renowned Silwa Oasis in Libya, where he was deified by the temple's ancient priesthood. Three hundred years earlier, Alexander the Great thought it important enough to take a three week detour and march hundreds of miles through desert, to be deified by the priesthood of this same Temple after he had conquered Egypt.[65] This deification process was not taken lightly.[D]

Why was this religious stamp of approval important to Alexander, at a time when irreligion and disbelief in the pagan gods was already rampant? Ferguson observed that:

"It made possible the lasting union of all the city-states of the world in a single great territorial state"[66]

Julius Caesar's motivation would have been similar.[E] Caesar returned to Rome not as a mere dictator but as a God, and they meant it. He and later Augustus combined the sacred power of the church with the secular power of the state, into the hands of the deified Emperor. The separation of God and State in Rome had ended. The control over the money system was placed in the religious office of Pontifex Maximus.[F]

Tenney Frank viewed Caesar in a very positive light:

"(Caesar) understood that Italy's free stock must be saved if the heart of the Empire was to be sound. With this in view he declared that at least a third of the laborers employed on the ranches of Italy must be free citizens. This is the first effort at Rome to check the spread of slavery...Caesar in fact had accepted the logical consequences of the democratic theories of the Gracchi, of which they had themselves not seen the full meaning."

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[D] Del Mar maintains that it sprang from an Indian doctrine of the ten incarnations of Ieus Chrisnu; once every "great year" (658 regular years, based on an astronomical cycle I haven't identified). The 11th incarnation was due between 78 AD and 1 BC, depending on which calendar was used. Christ did appear at that point, and Mohammed came almost 658 years later.

[E] Interestingly in 1999, Zbigniew Brezinski, formerly President Carter's National Security Advisor, insightfully predicted the failure of the "New World Order" because it had no universal religious underpinning. But he missed the fact that the emerging new order does have a religion called "Economics," and its god's name is the "Market," and its priests are called "economists."

[F] Other functions under control of the Pontifex Maximus were the superintendence of religon; custody of the code of procedure; erection and custody of the temples; and custody of the calendar. See Del Mar's *Middle Ages Revisited.*

MONETARY DISORDER IN THE CIVIL WARS

As Rome's legal system faltered and she degenerated into civil warfare, faction leaders produced their own coinage. Her money system became a shambles, prompting Cicero to remark around 50 BC that the currency was in such a fluctuating state that "no man knew what he was worth."[67]

Crawford noted that:

"(Caesar) struck his own coinage in enormous quantities, as an authority independent of and parallel to the state...."

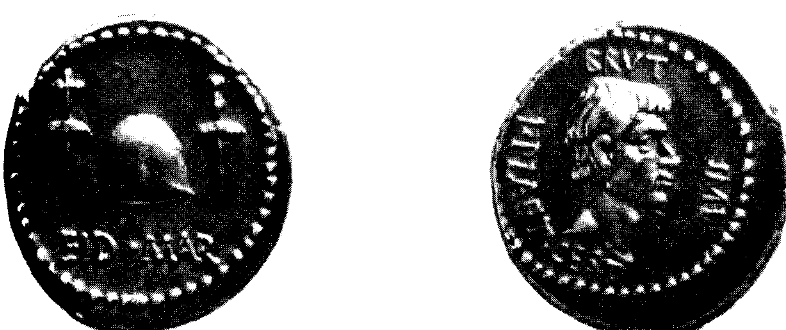
Caesar also issued a bronze coin in shiny gold like brass (called orichalcum), valued at 2 Aes. Once he seized Rome, his coinage became "Roman." But Rome didn't pass easily into dictatorship. He was soon assassinated by Brutus, who was regarded by many as a hero for it and Cicero defended the act as justified. Brutus proudly issued a coin, with two daggers and "Eid Mart" on it, to commemorate the assassination. The official moneyers produced a large coinage for the contending factions of Antony, Octavian and Lepidus:

"But within a couple of years the dynasts had ceased to bother with the coinage of the moneyers and simply produced their own issues in their own names."[68]

THE TEMPLES PROMOTED GOLD COINAGE

The private coinage signaled an important shift to gold, the traditional asset of the temple establishments. Crawford noted that:

"Much of the coinage of the dynasts, like that of Caesar, was in gold, and the emergence of this metal as a major element of the Roman monetary system emerges with great clarity...(when Antony distributed gold




*2m.* **Brutus issued his "eid Mart" dagger coins, proudly commemorating the assasination of Julius Caesar, his political enemy, and the lover of his mother.**

nummi to soldiers in 44 BC)."

The "deep pocketed" temples financed Octavian's (Augustus) battle for the succession. Appian's Roman History recounts how this financial help enabled him to use Roman Legions as a private army:

"Octavian made many other gifts to the indigent soldiers, borrowing from the temples for that purpose," and

"War was raging in all the provinces that had fallen to the lot of Octavian...for which reason he borrowed money from the temples, promising to return it with thanks, from the Capitoline Temple at Rome, from those of Antium, of Lancium, of Nemus, and of Tibur, in which cities there are today the most abundant stores of consecrated money."[69]

## DESTRUCTION OF THE ROMAN ETHOS

Roman morale, weakened by the Eastern cults and the displacement of Roman freemen and citizens by slaves, was finally broken by the civil wars. There was a great foreboding of the future, as shown in Appian's account:

"An old Etrurian sage was brought to Rome to explain the incredible signs - wolves in the Forum, statues sweating, cows talking, voices heard from nowhere, continuous lightning. He said the Kingly rule of former times was coming back and that they would all be slaves except himself, whereupon he closed his mouth and held his breath till he was dead."[70]

Many illustrious individuals and families were cruelly murdered in the civil wars, including Cicero,[G] whose severed head was presented to Antony. Atrocities and horrors occurred daily, prompting Appian to remark:

"These things took place not in an ordinary city nor in a weak and petty Kingdom, but the evil Deity thus shook the most powerful mistress of so many nations."[71]

It seems it wasn't early Christianity that destroyed Rome, but a much older religion. Rome wasn't ruined from the bottom up, but like America in the 20th century, the disease was spread from the east, to the top,

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[G] Cicero's greatness is apparent in his philosophic work "*Nature of the Gods*," probably the source from which several illustrious American colonial leaders adopted Deism. Cicero's hometown of Arpinum is in the same region from which the author's parents emigrated to America.

[H] Strangely, a new printing of the book (1981, by Crown Publishers) reverts to his initial manuscript, which contains none of these additions which Frazer made as his studies progressed. A subtle form of censorship?

then down.

At the heart of the later editions[H] of James Frazer's *Golden Bough* is his analysis of how the eastern cults destroyed Rome's social fabric:

"A multitude of...oriental faiths in the latter days of paganism spread over the Roman Empire, and by saturating the European peoples with alien ideals of life gradually undermined the whole fabric of ancient civilization. Greek and Roman society was built on the concept of the subordination of the individual to the community, of the citizen to the state. It set the safety of the commonwealth as the supreme aim of conduct, above the safety of the individual...Trained from infancy in this unselfish ideal the citizens devoted their lives to the public service and were ready to lay them down for the common good; or if they shrank from the supreme sacrifice, it never occurred to them that they acted otherwise than basely in preferring their personal existence to the interests of their country. All this was changed by the spread of Oriental religions which inculcated the communion of the soul with God and its eternal salvation as the only object worth living for...The inevitable result of this selfish and immoral doctrine was to withdraw the devotee more and more from the public service...The saint and the recluse, disdainful of earth and rapt in ecstatic contemplation of heaven, became in popular opinion the highest ideal of humanity, displacing the old ideal of the patriot and the hero who, forgetful of self, lives and is ready to die for the good of his country...A general disintegration of the body politic set in. The ties of the state and the family were loosened: the structure of society tended to resolve itself into its individual elements and thereby to relapse into barbarism, for civilization is only possible through the active co-operation of the citizens and their willingness to subordinate their private interests to the common good."[72]

Frazer did include Christianity among these Oriental cults.

## THE IMPERIAL GOLD STANDARD EMPOWERS EASTERN FINANCE

The Caesars and the Pagan church established a de facto gold standard throughout the Empire in 45 BC. Gold coins didn't replace silver and bronze as the circulating money, but all large sums became expressed in gold, and the relative value of gold against silver was raised by 1/3.

This reform centered on Rome's gold coin, the Aurei, which had weighed 168 grains and was set at a value ratio of 9 silver for 1 gold. Caesar, in several steps, quickly reduced the Aurei to 125 grains of gold

*2n.* **Under the Emperor Augustus, Rome again issued uniform copper coinages in great quantities, both for Rome and for the provinces, setting the pattern for Roman copper money for the next 250 years. This Dupondius was struck under Tiberius in 22 AD.**

- to near the ancient Temple ox/cow value. This brought the Roman ratio to 12 silver for 1 gold where it remained for nearly 1,300 years, until the downfall of the Roman/Byzantine Empire in 1204.

It is important to observe that the gold/silver ratio was set by government decree, not by market forces.

From the Caesars, religion became inseparable from the monetary power, though Roman state finances were separate from that of the Pagan and later the Christian Church.

Gold, the main holding of the eastern temples from time immemorial, became empowered as money throughout the Empire. Moreover, by raising the ratio to 12 to 1, Caesar arbitrarily increased the temple gold's value in relation to silver and bronze, the more commonly used coinage.

Julius Caesar in his campaigns had sought to control the important gold producing regions of the Empire, increasing Rome's supplies of gold.[73] Shifting to a gold standard probably worked to his personal advantage and may have been a matter of necessity for him as he was deeply in debt. In addition, he had made plans for eastward expansion, including digging the Corinth canal for a fast transit to Asia. This would have secured as much gold as the Empire could foreseeably use.

AUGUSTUS' MONETARY REFORMS

During Augustus' reign from 31 BC to14 AD, he consolidated the control over Roman bronze, silver and gold coinage into Imperial hands. He abolished the coining privileges of the Patrician families; no new issues appeared after 10 AD.

From 23 to 19 BC, Augustus began issuing copper coinage in the form of orichalcum, a shiny brass. Except for Julius Caesar's brief issue, and an earlier shorter one of Pompey in Spain, no bronze had been coined from the time of Sulla. To make it appear that he was giving the right of coinage back to the Senate, he stamped the new brass coins with "SC" - Senatus Consultus. But this was window dressing.

Augustus' new copper Asses weighed one half ounce. Interestingly the still circulating one ounce Asses were doubled in value, and were cut in half, dividing the Janus heads. This had not happened when the earlier Republican bronzes were reduced in weight. Augustus' initial reform thus increased the value of the bronze money already in circulation. But it appears that he ignored the essential concept of limitation of issue. Crawford noted that:

"Within a few years, however, even the doubled stock of Republican Asses paled into insignificance compared with the growing volume of new Augustan Asses."[74]

And Burnett points out that:

"...the purchasing power of base metal coinage was greatly increased, not just by the revaluation of the old coins but also by the production of new coins of a much higher denomination than had been previously made."[75]

Augustus also issued large amounts of uniform provincial bronze coinage in both the eastern and western parts of the empire, which could circulate in any Roman city, and set the pattern for Roman coinage for the next 250 years.

Rome had coined at intervals determined mainly by war: "All the great wars...are represented by great additions to the coinage," wrote Mattingly, who noted that the establishment of a colony was also an occasion for new coinage: "(it was) only natural that the colony should be started in life with a supply of Roman coinage."[76]

From the Emperor Vespasian on (69AD), Rome coined continuously, producing the bulk of the coinage at Rome, and distributing it through state expenses, army pay, and as gifts. Julius Caesar had introduced distributing coinage as gifts through the "dole." According to Mattingly, Trajan distributed at least 650 Denarii per head; Hadrian 1,000 per head; and Antonius Pius over 800 Denarii per head.[77] Severus made six dole distributions totaling 220 million denarii, before his death in 211 AD.[78]

Michael Grant, as president of the Royal Numismatic Society, argued that a historian couldn't truly understand an emperor's reign "unless he had a good knowledge of the local coinages issued...in that reign." But because of the complexity and number of issues, "attempts to compile empire-wide descriptions of local coinages for any given period have so far been extremely rare."[79]

## PRECIOUS METALS DRAIN TO THE EAST

*Rome's gold standard was thus born in the dictatorship of the Caesars, and then nurtured through three centuries of growing totalitarianism, slavery and injustice.*

No sooner was Rome fully committed to gold and silver for her primary coinages, when she began to run out of them! Trade with India was draining the monetary metals from the empire. Rome began importing "(F)eminine articles...the costly spices and perfumes from the east. To pay for them she had no great mass of manufactured goods to offer; payment had to be made for the most part in bullion. The result was a steady...depletion of the stocks of precious metals," wrote Mattingly.[80]

**PROBABLE ROMAN MONEY SYSTEMS**

**8th century BC**:
King Numa Pompilious: Established a Bronze standard; later he cast Bronze (with iron) bars; inaugurated the "Nummi" valued at 2½ Aes. (30 oz.of bronze)

**6th century BC**
King Servius Tullius: Further refined and marked the bronze bars (Aes signatum); later he monetized nomisma pieces for taxation and census counts.

**Early Republic** (from early 5th century BC, to pre-Punic wars, 268 BC)
Nomisma system of fiat money with limited issues of Aes Grave representing nomisma - i.e. representing 2½ Aes .
Silver bullion coins for foreign trade (Romano, Roma and Roma/Quadrigatus ).
Smaller, lighter Aes Grave in limited issues, both cast and struck.

**Later Republic** (c. 268 - 60 BC)
Struck bronze coins, in limited issues; As (still fiat) representing 12 ounces of bronze.
Silver Denarius, and subdivisions in unlimited issues.
Small issues of gold for war emergency.
Roma/Victoriates silver bullion coins for foreign trade (in large amount).

**Pre Empire Civil War upheavals** (c. 60 - 40 BC)
Previous coinages still circulating.
Private coinage of the civil war leaders, who borrow and monetize Temple gold into coins.

**Early Empire** (the Augustans - Augustus, Tiberius, Caligula and Claudius)
Old bronze still circulating as money.
Gold Aureus; Silver denarius; Augustus: new (orichalcum brass) issues from 23 BC, in unlimited amounts and higher denominations. His large issues of standardized bronze for the provinces sets the pattern for the next 250 years.

This was not merely a negative balance of payments accounting situation; Rome's actual money supply was constantly being exported to the east.

Religious dues also drained the money supply to Asia:

"One of the most important privileges in Jewish eyes was the permission to collect money and send it to Jerusalem. The sums of money collected among the Jews were not small," wrote Victor Tcherikover.[81] During the Roman Empire it was 2 Denarii per head each year, for all men 20 to 50 years of age.

This constant drain to the east was probably aggravated by loan sharking - usury. Once Rome monetized gold, she handed power to the eastern holders of the metal. They could have used their metallic hoards in loans through intermediaries. Over the centuries, this cumulative drain could have been enormous, with powerful deflationary consequences.

In spite of the great amounts of silver denarii being minted, Rome faced severe liquidity crises. First Augustus had to advance 15 million denarii around 7 BC. Then in 33 AD, the Emperor Tiberius felt compelled to coin and advance 100 million Sesterce interest free for three years to prevent foreclosure on many indebted farmers.

The flow of precious metals to the east was relieved by military expeditions against the east, which brought large quantities of gold and silver back to Rome to be coined. Still, the precious metals content of Roman coinage had to be reduced.

The gold Aureus went from 125 grains in Julius Caesar's time, to 68 grains under Constantine The Great, 375 years later - a drop of 46%. The silver content of the Denarius fluctuated much more, falling from 58 grains to almost no silver content at one point in the late third century, and finally being re-constituted at 36 grains under Constantine (a drop of 38%).

These reductions have usually all been indiscriminately characterized as "debasements" by commodity money advocates and seized upon as an over-simplified explanation of Roman moral degeneration! But Tenney Frank gave this opinion:

"Our conclusion is that neither the lack of metals nor the debasement of the currency was a serious factor in the economic debacle before 250, but rather that the imperial currencies followed the road to degradation at about the same rate as the government and society in general, and that debasement was an effect rather than a cause of the wreckage."[82]

We can agree up to a point. Reducing the metals content was probably a necessary means of alleviating the deflationary effects of using scarce commodities for money,[1] enabling Rome to partially offset the export of her money supply to the east. For especially in later centuries a steady deflation and scarcity of money most likely plagued Rome.

## THE EMPIRE SHIFTED EASTWARD

Adopting the gold money system of the east focused the Empire in that direction, as precious metals flowed eastward mainly for luxury items, for religious dues, and probably for usury payments. The severe problems caused by the Caesar's gold standard demonstrates the primary importance of not placing the control of the monetary system outside of the community.

Julius Caesar was preparing an attack eastward on the gold rich Parthian Empire, which would have alleviated this problem for the foreseeable future, when he was assassinated.

Trajan launched a campaign against Parthia and got as far as Basra, but was stopped by the Jewish revolt behind his lines, in 115-117 AD. The Empire had reached its greatest land expanse. Hadrian pulled back, dismantling the great bridge over the Danube, moving all troops to the west of the Euphrates river and building a defensive wall across Britain. Diocletian would later attack eastward.

## DIOCLETIAN BEGAN THE REFORM PROCESS

Twentieth century economists like to ridicule Diocletian for setting up price controls in 301 AD, and point to their failure as one of the main examples of why governments should not intervene with markets. But as the body of Diocletian's reforms continue to be pieced together, the picture emerges of him as one of Rome's more capable Emperors.

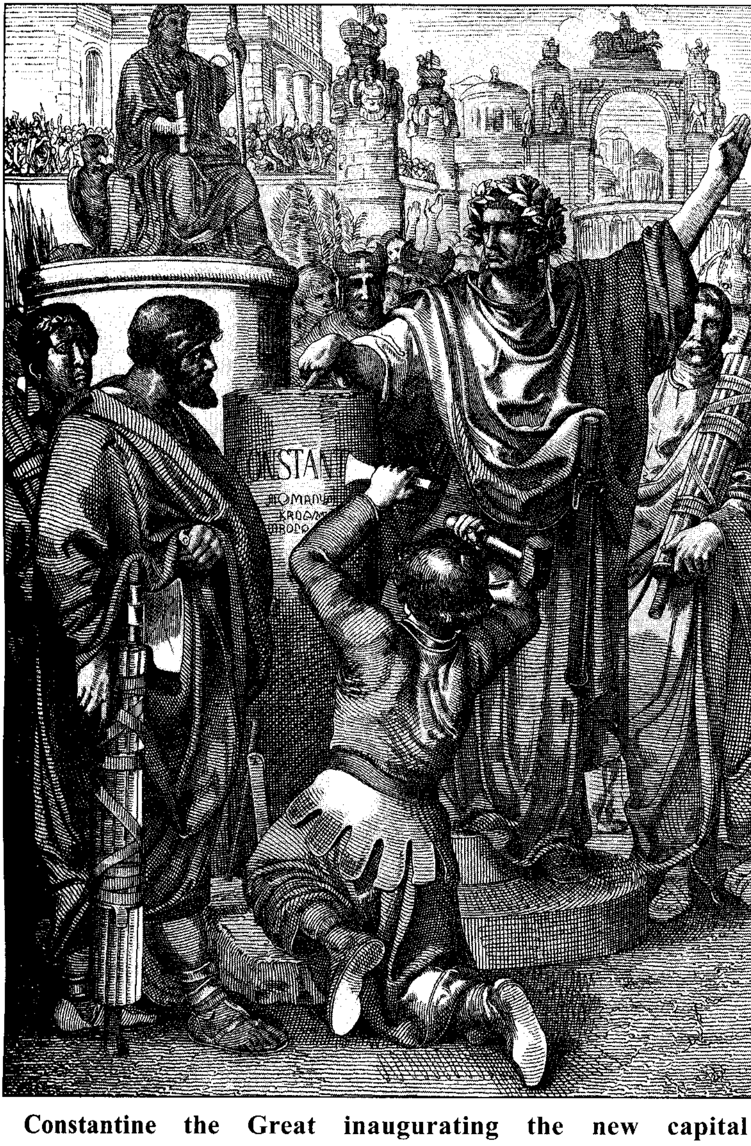
He was the first to organize the Roman budget on an annual basis and to levy taxes uniformly throughout the Empire. Before he acted on prices or coinage reform, he had extensive research carried out to better know what he was doing. Diocletian's pet peeve was merchants taking unfair advantage of movements of the army, "extorting" prices that were "unspeakable:"

"The Emperor's chief complaint...is of the universal existence of...a raging avarice, a desire of unrestrained madness amounting to a religion and an unbridled passion for plundering...Wherever the Army be directed - villages and towns, even roads - the profiteer extorts prices

[1] One of the rare modern writers to recognize this was Robert de Fremery in *Money and Freedom*. Another was Elgin Groseclose in *Money the Human Struggle*.

that are not simply four times or eight times but are such to render the name of the price and the act incapable of description by the human language," wrote H.L. Cope in *Diocletian's Price Edicts*.[83]

Diocletian, who began his career as a slave, resigned the



*20.* **Constantine the Great inaugurating the new capital of Byzantine/Rome. Adopting the gold money system of the East drew the empire in that direction until finally Constantine relocated the capital at Byzantium on the border of Asia, renaming it Constantinople.**

Emperorship in disgust, and retired to his home on the Dalmatian Coast. When pressured to resume the throne he replied:

"Would to god that you could see the herbs which I cultivate with my own hands at Salonika, you would not think of making me such a proposition."[84]

## CONVERSION OF THE EMPIRE TO CHRISTIANITY

Trade with India dealt the Pagan Church a great blow. The mythology of Roman religion which had been derived from Homer, Virgil, Hesiod, and the Sibylline Books, was seen to be of Indian origin, much older than previously thought.[85]

By 324 AD Constantine converted the Pagan Church to Christianity. It didn't triumph over Paganism, but Paganism's leaders adopted it, substituting Christ for Caesar. Christianity inherited the Pagan Church's property - about 1/3 to 1/2 of all the lands of the Empire, with about 1/4 of its population. The shift was gradual. Acknowledgment of the conversion in the coinage, the normal place for such announcements, only starts to appear in the coinage of Constantine's son.

## CAPITAL OF THE EMPIRE MOVED EAST TO BYZANTIUM

Finally in 331 AD, Constantine The Great moved the seat of Empire to Byzantium, on the border with Asia, renaming it Constantinople. From this point the Empire is called the Byzantine Roman Empire. Asia was literally within eyesight of the Imperial Palace. Brooks Adams characterized the city as "a horde of Roman capitalists washed to the confines of Asia by the current of foreign exchanges."[86]

While the Emperor's office had been temporarily divided, the religious office of Pontifex Maximus, which held the money power, was generally not split. Constantine The Great continued to hold this office until his death, calling himself the "Chief Pontiff."[87] In the east, the Pontifex Maximus office was called the Basileus. The Basileus continued to exercise effective internal control over the Empire's money system until it fell in 1204 AD, marking nearly 2,000 years of Rome.

Constantine used gold appropriated from the temples to inaugurate the famous Bezant coin (usually referred to as the Nomisma) at 68 grains of gold, almost exactly half the ancient 130 - 135 grain ox/cow standard. For 900 years the Nomisma:

"...was seldom degraded, and but once debased; it never ceased to be regarded as money. There was no ingot-money, there was no weighing of gold coins, they passed then as they do now, by tale, and what is more, it was unlawful to refuse, criminal to alter, and death to deface them or reduce them to bullion," wrote Del Mar.[88]

But this did not mean that the Empire's monetary problems were solved - far from it. While in the east, the finances of the Empire's administration and army were carried on successfully, in the west the rule of law continued to degenerate, and money, which is based in law, almost disappeared.

The culmination of Roman thought on money is in the 6th century code of Justinian, tenth book, a passage of Julius Paulus, a Jurisconsult of around 300 AD:

"...a device was chosen, whose legal and permanent value remedied by its homogeneity, the difficulties of barter. This device being officially promulgated, circulated and maintained its purchasing power, not so much from its substance as from its quantity. Since that time, only one consideration in an exchange is called merchandise. The other is called price."

This concise statement of the principles of nomisma helped to convince Del Mar that the Romans indeed must have used and understood such a system. Otherwise how could Paulus be so aware of it?

So the historical record, up to and through Rome shows the money power to be a convention or legal institution, of either the Temples (religion), the government, or both. Now we know why the banks are disguised in Greek temple architecture. But where did the idea come from that a nation's money system should be placed in the hands of private bankers? Not from Greece or Rome - certainly not from classical sources.

### *Notes to Chapter 2*

[1] Tenney Frank, *Economic History of Rome*, (1920, New York: Cooper Square Publishers, 1962), p. 20.

[2] Henry Noel Humphreys, *Ancient Coins and Medals*, (London: Grant & Griffith, 1850).

[3] Livy, c.f., s. 77, as cited by Peruzzi, see #7 below, pp 228-245.

[4] Pliny, *Historia Naturalis*, Book 3, Ch. 30, S. 138, Book 33, Ch. 4 (21), S. 78, and Book 37, Ch. 77, S. 202, quoted by Toynbee, cited in note # 37 below, p.361. Also, Pliny, iii, 24 and xxxiii21, as cited by Del Mar, *Money in Ancient Countries*, cited in note # 30 below, p. 220.

[5] Humphreys, cited above, pp. 127-31.

[6] Raymond Bloch, *The Origin of Rome*, (New York: Praeger, 1969) pp. 19, 20, 56.

[7] Emilio Peruzzi, *Money in Ancient Rome*, (Florence: Academia Toscana Di Scieneze E Lettere, 1985), pp. 9, 10.

[8] Alexander Del Mar, *History of Monetary Systems*, cited above, p. 78.

[9] Peruzzi, cited above, pp. 97-105.

[10] Peruzzi, cited above, pp. 97, 275.

[11] Peruzzi, cited above, p. 113.

[12] JG Milne's article, The Classical Review, (vol. 63, 1949) p 86.

[13] Chronographus, cited by Peruzzi, see note # 7 above, p. 168.

[14] Joannes Antiochenus 33, and Suda, I p 378, quoted by Peruzzi, cited above, p. 151.

[15] Rudi Thomsen, *Early Roman Coinage*, 3 vol. (Copenhagen: Nationalmuseet, 1961), vol. 3, p. 204. He gives 3,435 grams (= 7.57 lb) and 216.1 grams (= .48 lb)

[16] Pliny, N.H. XXXIV, 1.

[17] Andrew Burnett, *Coinage in the Roman World*, (London: Seaby, 1987), p. 3.

[18] Pliny quoting Timaeus (c. 356-260 BC) in N. H. 33.43, as quoted by Peruzzi, p. 158.

[19] Varro, records ap. Charis, GLK, I, pp. 105.5-7, as quoted by Peruzzi, p. 227.

[20] Peruzzi, cited above, pp 171, 225.

[21] Peruzzi, cited above, pp. 208, 216-17, 220-21.

[22] Peruzzi, cited above, pp. 231-32.

[23] Peruzzi, cited above, pp. 231-33.

[24] Burnett, cited above, pp. 3-6.

[25] Thomsen, cited above, vol. 3, p. 256.

[26] Del Mar, cited above, p. 63.

[27] Peruzzi, cited above, pp. 233-239.

[28] Peruzzi, cited above, p. 233.

[29] Livy, 4.60.2 and 4-6, quoted by Peruzzi, p. 138.

[30] Alexander Del Mar, *Money in Ancient Countries*, cited above, p. 187.

[31] Thomsen, cited above, vol. 3, p. 239.

[32] Andrew Burnett, *Rome and the Hellenistic World in Coins*, (London: Metheun, 1980), p. 55.

[33] Del Mar, *Money in Ancient Countries*, cited above, p 241.

[34] Frank, cited above, pp. 71-2.

[35] and again, Frank, pp. 71-2.

[36] Gilbert and Colette Charles-Picard, *Daily Life in Carthage*, trans. A.E. Foster, (New York: Macmillan Co., 1966), footnote p. 85.

[37] Arnold Toynbee, *Hannibal's Legacy*, (Oxford Univ. Press, 1965), vol. 1, pp. 33-8.

[38] Burnett, *Coinage in the Roman World*, cited above, p. 33.

[39] Michael Crawford, *Coinage and Money Under the Roman Republic*, (Univ. of California Press, 1985), p. 3.

[40] Frank, cited above, p. 76.

[41] See Pliny Hist. Nat. XXXIV, 34.

[42] Burnett, *Coinage in the Roman World*, cited above, p. 35.

[43] C.H.V. Sutherland, *Roman Coins*, (London: Baine & Jenkins, 1974), p. 47. Also Livy, XXVi, 10, 11f.

[44] Pliny (xxxiii, 13), also in Ch. 2 and Ch. 3, as quoted by Del Mar, *Money in Ancient Countries*, p. 212 footnote.

[45] Thomsen, cited above, vol. 2, p. 249.

[46] Harold Mattingly, *Roman Coins*, (London, Spink and Son, 1977).

[47] Thomsen, cited above, vol. 2, pp 198-200.

[48] Based on the account of Mathew Raper in McCulloch's *Rare and Valuable Tracts on Money*, 1856, (reprint, New York: A.M. Kelley).

[49] Crawford, cited above, pp. 178-83.

[50] Burnett, *Coinage in the Roman World*, p. 109.

[51] Crawford, cited above, p. 177.

[52] Burnett, *Coinage in the Roman World*, p. 111.

[53] Toynbee, cited above, vol. 2, p. 375-76.

[54] Toynbee, cited above, vol. 2, p. 380.

[55] James George Frazer, *The Golden Bough*, (NY: Macmillan, 1953), p. 404.

[56] Frederick C. Grant, *Ancient Roman Religion*, (NY: Liberal Arts Press, Bobbs Merrill, 1957), p. xix.

[57] Toynbee, cited above, vol. 2, p. 384 footnote 7.

[58] Toynbee, cited above, vol. 2, pp. 349-50 (footnote).

[59] M.I. Henderson, *The Establishment of the Equester Ordo*, Journal Of Roman Studies, (Liii 1963), pp. 61-72.

[60] Toynbee, cited above, vol. 2, p. 174.

[61] See Toynbee, cited above, vol. 2, tables on pp. 171-3.

[62] Toynbee, cited above, vol. 2, p. 312.

[63] Frank, cited above, p. 129.

[64] Plutarch, *Plutarch's Lives* - Tiberius Gracchus, (Chicago: *Great Books of the Western World*, Univ. of Chicago, Encyclopaedia Britanica, 1952), p 675. The tenses of some verbs have been altered, for understanding.

[65] William S. Ferguson, *Greek Imperialism*, (NY: Biblo & Tannen, 1963), pp. 126-130.

[66] Ferguson, cited above, p. 148.

[67] Cicero, De. Off. L.iii, S. 20, as cited by Del Mar, *Money in Ancient Countries*, cited above, p. 298.

[68] Crawford, cited above, pp. 242-44, 250-1.

[69] Appian's *Roman History*, Book 4, (Loeb Classical Library, 1979), pp. 397, 417

[70] Appian, cited above, p. 147.

[71] Appian, cited above, p. 165.

[72] Frazer, cited above, pp. 414-5.

[73] Del Mar, *Money in Ancient Countries*, p. 290, 300-01.

[74] Crawford, cited above, p. 261.

[75] Burnett, *Coinage in the Roman World*, cited above, p. 54.

[76] Harold Mattingly, *Roman Coins*, (London: Metheun, 1928), p. 182.

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[78] Sutherland, cited above, p. 215.

[79] Michael Grant, *Roman History from Coins*, (Cambridge University Press, 1958), pp. 73-79.

[80] Mattingly, 1928 edition cited above, pp. 185-96.

[81] Victor Tcherikover, *Hellenic Civilization and the Jews*, (Jerusalem: Jewish Publication Society, 1959), p. 308.

[82] Frank, cited above, p. 491

[83] L.H. Cope, Diocletians Price Edict, as quoted in Michael Hendy, *Studies In The Byzantine Monetary Economy*, 300-1450, (Cambridge University Press, 1985), pp. 450-60.

[84] Humphreys, cited above, p. 176.

[85] Alexander Del Mar, *Middle Ages Revisited*, (New York: Cambridge Encyl., 1900), Ch. 8.

[86] Brooks Adams, *The Law of Civilization and Decay*, (New York: Knopf, 1943), pp. 97-8.

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# CHAPTER 3

# A MONETARY VIEW OF ROME'S DECLINE

**"There was no 'Fall of the Roman Empire'. The phrase is rhetorical and false..."**
**Hilaire Belloc**

Our monetary interpretation of the decline of the Roman Empire is based on two important, but little known monetary mechanisms of great antiquity. The first was the sacred gold coinage prerogative, and the second was the difference in the gold/silver ratio between east and west.

## THE SACRED GOLD COINAGE PREROGATIVE

This ancient "privilege" is a dramatic example of how religious and monetary power continued to overlap. For over 12 centuries coining gold was regarded as the exclusive prerogative of the supreme sovereign, and was a jealously guarded privilege of the Caesars as Pontifex Maximus for 300 years; and then in the east, as Basileus, for nearly 900 years more. Infringements upon this power, which were extremely rare, were met with death or warfare. According to Del Mar, the phenomenon "ascends to the Archimenides of Persia (Cyrus and Darius) in fact it ascends to the Brahmins of India...The Greek and Roman republics broke it down; Caesar set it up again."[1]

One remarkable attempt to infringe this sacred prerogative occurred when Moslem leader Abd El Melik minted gold coins. He had a 10 year peace treaty with the Byzantine Roman Emperor Justinian, whereby he paid Byzantium 1,000 gold coins a year which he was allowed to mint with Roman emblems. Then in 695 AD he issued gold coinage with his own image, holding a sword, and the words "Abd el Melik - servant of god" and tried to pay Justinian's tribute with them.[2]

Though this new coinage was similar in weight and purity, Justinian's generals recognized the significance of his act and immediately declared war even before the news could reach Justinian. For Abd el Melik had committed the ultimate defiance in the ancient world - he had independently issued gold coinage, a prerogative of the Basileus at Constantinople.

This prerogative is not much discussed today, as it does not fit with the assumed market nature of money and argues strongly for an institutional/legal nature of money. However, the prerogative is well documented by authorities in the field:

"As to the provinces...the coining of gold was nowhere permitted, not even in the client states," wrote Mommsen in the *History of Rome*.[3]

Lenormant's *Monnaes de Antiquita* noted: "With (one minor exception) it is certain that the coinage of gold, no matter where, was always intended as a marked defiance to the pretensions of sovereignty by the Roman Empire...for many centuries neither the provinces subject directly or indirectly to the Basileus, nor even more or less independent states adjacent to the Empire, ever attempted to coin gold money."[4]

Harold Mattingly confirmed that the few gold pieces that were manufactured outside Byzantium's system are regarded as medallions issued to commemorate special occasions, not as coinage.[5]

"More decisively important than the [centralization of minting] was

*3a.*
**Abd El Melik's gold coinage of 695 AD sparked a war with Byzantine Roman Emperor Justinian. He violated the ancient prerogative that only the supreme religious authority (at that time the Basileus at Constantinople) could coin gold.**

the Byzantine reading or definition of the prime gold coin not simply as a token of exchange but as a sign of ultimate sovereignty," wrote Dean Miller in *Imperial Constantinople*.[6]

Local rulers were allowed to mint silver coinage, at the Roman ratio of 12 to 1, established by Julius Caesar. Del Mar maintains that this remained Rome's official ratio until 1204 AD. That's not to say that Rome's official ratio was everywhere followed at all times in the twelve centuries of Imperial Rome.[7]

Even the Popes of Rome, after seceding from the Empire in 755 AD, didn't dare to mint gold coinage for 560 years, until the Byzantium Empire fell in 1204. At that point local rulers all over Europe began minting gold coinage:

EUROPEAN GOLD COINAGE BEGINS AFTER THE FALL OF THE EMPIRE

| DATE | PLACE | RULER | COIN NAME | WEIGHT |
|---|---|---|---|---|
| 1225 | Naples | Frederick 2nd | Aurei | 81-82 grains |
| 1225 | Lyon | Alfonso | Ducat | 54 grains |
| 1250 | Paris | Louis 9th | Ag'nel | 63 grains |
| 1252 | Florence | Republic | Florin | 56 grains |
| 1257 | England | Henry III | penny | 43 grains |
| 1284 | Venice | Republic | Ducat | 56 grains |
| 1316 | Avignon | Pope John 22 | Sequin | 54 grains |

## MONETARY "SECRET OF THE AGES" - A DICHOTOMY IN THE GOLD/SILVER RATIO BETWEEN EAST AND WEST

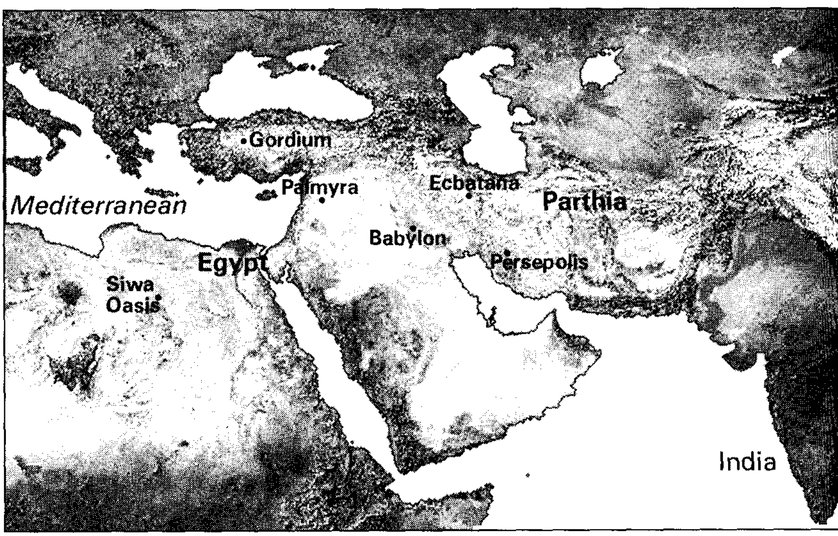
The second ancient mechanism was the monetary "secret of the ages" - a difference in the gold/silver ratio between east and west. For thousands of years this mechanism was a great source of power to whoever held it. Elements of the Roman establishment drew great strength from their control over it, until its effects helped bring down Rome from within. Venice's profits from it helped spark the Renaissance. It was quietly used for centuries by Jewish merchants getting transplanted from Asia into Europe. Control over it helped shift the balance of commercial power in Europe in 1500 from Venice to Portugal/Antwerp, then to Holland, and finally to England. In short, it was one of the primary forces that shaped modern capitalism.

It worked like this: The gold/silver ratio in the West was kept high, ranging over millennia, from 9 to 1, to 16 to 1. However, the ratio in India and Asia was kept low - usually about 6 or 7 to 1. **This meant that silver taken from Europe to India exchanged for nearly twice as much gold in India as it did in Europe.** The nexus of the trade was the land bridge above the Middle East; whoever controlled that area usually controlled the trade.

If it was controlled from the West, they got 100% more gold for their Silver than the local value. It worked just as well from the East. If they controlled the trade they received 100% more silver for their gold. If control was shared, trade would probably have been at a 9 to 1 ratio, giving each establishment a profit on exchange.

The existence of this dichotomy and its significance is almost unknown. William Jacob discusses it,[8] and Del Mar also discovered it:

"About 69 BC, the Jews appear to have again acquired some share in that lucrative trade with India...which has ever been a source of contention and hatred among the states of the Levant. The principle channel of this trade was now by the Nile and Red Sea, and was in the hands of the Ptolemaic rulers of Egypt. A portion of it went overland by Palmyra; and from this portion Jerusalem derived important commercial advantages...[which] were lost to the Jews and acquired by Rome when in 63 BC




*3b.* **Whoever controlled the Middle East land bridge region between Europe and India could derive vast profits from the caravan trade, and amass gold by sending silver from Europe to India, where it was worth twice as much gold as in Europe.**

Pompey and Scannus snatched Judea from the contentious Maccabees..."[9]

THE GORDIAN KNOT?

Three centuries earlier, Alexander the Great had seized control of the mechanism, when he conquered Asia Minor, Egypt, and parts of India. *It is tempting to consider the mechanism as a kind of monetary "knot" between East and West, the control of which could yield great power. "Whoever untied the knot shall be lord of Asia," stated an ancient legend connected with the region.*

At the Citadel of the city of Gordium, in Phrygia, there stood a cart. A "knot" of cornel bark held the cart's shaft to its yoke. The legend was that the cart had been brought there by a peasant's son on the day that he, Midas, was unexpectedly proclaimed King. The Midas gold connection is fascinating. We are told that Alexander sliced the knot with his sword.

With Alexander's untimely death, power over the mechanism went to one of his aides, Ptolemy, founder of the Ptolemaic Dynasty of Egypt. To operate the mechanism from Egypt required a high degree of insulation from neighboring states. While the mechanism is still unrecognized, we can identify its traces in the work of modern historians such as M. Rostovtzef's *Social and Economic History of the Hellenistic World*:

"The Ptolemies pursued from the outset their own monetary policy, regardless of what happened in this regard in the rest of the world. *For reasons unknown to us* but probably dictated by economics...they separated themselves and their Kingdom from the rest of the Hellenized world."[10] (emphasis added)

Rostovtzef continued:

"It seems to have been an accepted fact that the Ptolemies derived an enormous reserve of gold from the Arabian caravan trade."

And,

"Greek imports from the Ptolemies were without doubt paid for in good silver, of which the Ptolemies had such a pressing need." He further noted that there was a serious inflation in the value of silver in Egypt in the 2nd and 1st centuries BC, an effect indicated by the siphoning of silver to the east.

Since traders could arbitrage or translate the existence of the gold/silver dichotomy into the values of other commodities, some control over these is indicated:

"The Ptolemies maintained effective customs barriers on merchandise," which had to be sold to them at officially fixed prices, wrote Rostovtzef. Finally, what if a trader carried goods east to India, and returned with gold, presumably twice as much gold as the goods were worth in Egypt? Imported "foreign coins had to be reminted" at the Ptolemaic western ratio, of 12.5 to 1.

Rome gained full control of this crucial Asiatic trade when it took Egypt from the Ptolemies in 48 BC, and quickly took steps to maximize control over the gold-silver ratio dichotomy. Tenny Frank observed that:

"Augustus…virtually severed (Egypt) from the rest of the world…he desired it to be closed to Roman contacts," and he mentions "The temporary increase in land values near Rome in Augustus' day, due to the lavish coinage of gold brought by Augustus from Egypt…"[11]

Michael Grant notes that in the reign of Tiberias, Rome's silver denarii were not allowed into Egypt.[12] This made unofficial leakages of silver to the East more difficult.

Pliny wrote that 100 million Sesterces of silver, equivalent to one million gold Aurei, was annually exported to India and China from Rome. He had been appointed Procurator in Spain and entrusted with managing the Revenue. But the secrecy of the mechanism is underscored by the fact that its workings were not known to him, for he couldn't understand why his countrymen "always demanded silver and not gold from conquered races."[13]

Like the Ptolemies, from Augustus' time, Rome maintained "a high customs barrier along the eastern frontier of the Roman Empire...a fact of primary importance...this frontier remained intact...until the Arab conquest...In the first century a duty of 25% was charged on incoming goods and probably also on exports...all trade by mutual consent of Rome and Persia had to be channeled through certain cities," wrote A.H.M. Jones, in *Asian Trade in Antiquity*.[14]

According to Prof. Jones, from the fourth century the tariff dropped to 12 ½%, and in the 6th and 7th centuries there was a deliberate increase of export tariffs on the Persian side, greatly reducing the amount of trade, indicating the fall of Roman power in the area as the Moslems conquered Persia. Rome's loss of absolute control over the mechanism hastened her decline.

## THE SILVER DRAIN CONTINUALLY PRESSURED ROME

An awareness of this tendency of silver to drain eastward explains some of the legislation Rome enacted in response, as reported by Burnett:

"The Republic (banned) the export of money (63 BC)…whereas in the imperial period the emperor solved the problem by making large interest free loans available…Augustus lent 15 million denarii from 7 BC, and Tiberius 25 million in AD 33."

"Caesar (in 49 BC) passed a law forbidding anyone to hoard more than 15,000 denarii…On other occasions one hears of attempts to restrict the flow of precious metal from Italy…or a ban on exporting coin from one province to another where it would be worth more…"

The Fourth century Theodosian code proclaimed that:

"It shall be altogether illegal for any person to buy coin…(pecunias) or to handle forbidden (vetitas) coin, because legal tender ought to be money, not merchandise…And if ships should come to any province with goods, everything should be sold with the customary freedom except the coins which are usually called largers, or common hundreders…"[15]

THE JEWISH REVOLT OF 115-117 AD

The gold/silver ratio mechanism helps explain the Jewish revolt of 115-17 AD, which historian E. Mary Smallwood called "one of the most puzzling chapters" of the relations between Rome and the Jews.[16] Edward Gibbon, citing ancient sources wrote in his *Decline and Fall of the Roman Empire*:

"...In Cyrene they massacred 220,000 Greeks, in Cyprus 240,000. In Egypt a great multitude. The victorious Jews devoured the flesh, licked up the blood and twisted the entrails like a girdle around their bodies...and we are tempted to applaud the severe retaliation which was exercised by the arms of the Legions against a race of fanatics whose dire and credulous superstition seemed to render them the implacable enemies not only of the Roman Government, but of human kind…their irreconcilable hatred of mankind…etc." [17]

Gibbon noted that as a result of the massacre of 240,000 Greeks on Cyprus, Jews were not allowed to land on the island and even if shipwrecked there, were put to death. Orosious and Eusebius also chronicle the destruction of the Cypriot city of Salamis. Roman forces rescued the large Greek population of Alexandria.

Smallwood wrote, "The literary sources give no reason for the Jewish outbreak but all present the Jews as falling on the Greeks without justification or provocation: They rose 'as if mad' (Orosius), or 'as if in the grip of some terrible spirit of rebellion' (Eusebius), but the timing of the outbreak is surely connected with Trajan's Parthian war...conceivably the Jews even acted at Parthian instigation." The caravan route to India went through Parthia.

Jacob Neusner reached the same conclusion in *The History of the Jews of Babylon*: "One may assume that the Parthians made preparations to meet the invasion by arousing Jewish rebellion in Alexandria, Cyrenaica, and Cyprus...The Jews in Babylonia as well as those in Mesopotamia, along with the caravan cities of the Near East, stood to lose greatly by Trajan's revision of economic policy."[18]

While this explains the Jewish uprising, it opens a larger question. For earlier, in 66-70 AD when Rome destroyed the Temple at Jerusalem, there wasn't any reaction from the Jewish Diaspora. Was the true locus of Jewish culture and power not the religious center at the Jerusalem Temple, but the wealthy merchants farther east?

"Trajan's eastern conquests brought Rome for the first time into contact with the oldest and largest section of the Diaspora..." wrote Smallwood. The revolt's broad effect was counter to the stand of the 300 Spartans at Thermopylae (the Hot Springs), and of the Athenians at Marathon.

THE DICHOTOMY CONTINUED FOR MILLENNIA

The dichotomy in the ratio lasted for thousands of years. As late as 1625, Japan, valuing the ratio at 6 to 1, was unaware that the ratio in Europe was high (15 to 1 at that time), and Portuguese traders were able to strip Japan of two thirds of its gold; approximately 250 tons, between 1564 and 1624 AD.[19] John Locke noted that the British East India Company was using the dichotomy well into the 18$^{th}$ century, disrupting England's silver money system. Locke called the mechanism "a destructive plague...(which was) sinking the solid wealth of the (British) Kingdom into the Indian seas."[20]

Attempting to explain how such a mechanism was brought into existence and maintained, Alexander Del Mar postulated that:

"The control of money and trade must have been in powerful hands to maintain it...whose hands? - the priesthood - the priests of Brahma or Buddha in the East, and (consecutively) the priests of Cyrrus, Darius, Tiglath, Nebu Nazaru, Osiris, Alexander, Ptolemy, and the Caesars, in the West."[21]

Dishonest money systems tend to have some secret at their heart, and so it was with Byzantium. When we combine our two ancient mechanisms, we can see that **the "secret" dynamic behind the "sacred" gold coinage prerogative was that the Basileus would be ready to**

**exchange centrally minted gold Bezants for locally minted silver coinage at a 12 to 1 ratio, when it could exchange that same silver for up to twice as much gold bullion in India, and points east.** Any interference with this mechanism struck at the heart of the Basileus' power.

THE LATE 3RD CENTURY COINAGE CRISES

From Caesar to 250 AD the drop in metallic content of the coins, when averaged annually, was minuscule. Then the position of Pontifex Maximus, shown by Del Mar's research to be in control of the monetary system, was divided between Balbinus and Pupienus in 238 AD, and from 250 on, Rome's primary coinages had severe problems for several decades. The silver coin, which in 250 AD had contained 40% of its original silver content, was down to 4 % silver just 20 years later in 270 AD. And for a period they would be entirely copper. These disruptions in the primary coins continued until the reforms of Diocletian in 300 AD, and Constantine a bit later.

The overriding cause of these problems was evident to Tenney Frank:

"...fifty years of anarchy (235-285) and successive usurpations, a period of almost constant civil wars, and consequently of foreign invasions...During this period 26 men, mostly barbarians...reached the throne, while a larger number attempted to do so and failed. Each usurper in turn found the treasury empty and an army demanding bribes for support. To obtain the necessary funds they resorted to debasement of the currency, forced capital levies, proscription of the well to do with confiscations, and when these did not suffice they had to allow their troops to plunder."[22]

But Frank also understood that even this extreme deterioration of the coinage could be manageable:

"(E)ven thus the depreciation was but slightly more than that in some European countries after the great war [World War I], where business has nevertheless succeeded in weathering the storm..."[23]

Edward Gibbon identified another cause of the monetary disorder - the abuse by the private minters of Rome's coinage. Toward the end of the 3rd century this hereditary caste of "moneyers" became entrenched and regularly short-changed Rome, manufacturing coins without the full stated metallic content and keeping the difference for themselves. When they were discovered to be minting unauthorized coinage of a dead emperor, the Emperor Aurelian attempted to reform them in 275 AD and found himself at war:

"The workmen at the mint...have risen in rebellion. They are at length suppressed; but 7,000 of my soldiers have been slain in the contest."

To explain how so many battle hardened troops were killed in the fight, Gibbon, concluded that:

"Nothing less than the firm though secret conspiracy of the authority of (the Senate); the wealth of (the Equestrians) and the arms of the (Praetorian Guard) could have displayed a strength capable of contending in battle with the veteran legions of the Danube."[24]

The monetary lesson is that those with special monetary privileges do not politely give them up when called upon to do so.

CAUSES OF ROMAN DECLINE ARE STILL DEBATED

If the cause of Rome's decline has remained mysterious, perhaps it's not so much from a lack of knowledge of what took place, but to shield from closer scrutiny similarly destructive attitudes and institutions operating on present day Western society.

From the viewpoint of advanced human and political values we may prefer to associate the descent of Rome with the fall of the Republic, which could not withstand the polarization and concentration of wealth that followed Rome's loss of control over her money system, brought about by the Punic wars. The results - the rise of the great land estates, known as "latifundia," and the vast, untaxed concentration of wealth that they represented - has been cited as the cause of Rome's undoing:

"Latifundia perdida Roma" [the great estates destroyed Rome] wrote Pliny, in the 1st century AD.

However, the question of Roman decline generally refers to the later decline of the empire. Edward Gibbon's *Decline and Fall of the Roman Empire* has long been the pre-eminent description of Roman decay. But today parts of his analysis and even its title is challenged:

"There was no 'Fall of the Roman Empire.' The phrase is rhetorical and false...," wrote the cleric, historian and economist Hilaire Belloc, "...The Church has been blamed for the decline, but on the contrary it saved all that could be saved."[25]

**A) Christianity Has Been Blamed:**

Belloc was reacting to Gibbon's writings, which laid a large part of the blame on Christianity's otherworldly attitude wherein Gibbon noted that "happiness of a future life is the great object of religion."[26] Frazer's *Golden Bough* echoed Gibbon:

"It should never be forgotten that in their glorification of poverty and celibacy both (Buddhism and Christianity) struck straight at the root not merely of civil society, but human existence."[27]

But when Constantine tolerated Christianity in 313 AD, Rome had more influence on Christianity than the Church had on Rome. For example, in 324, there was no unified Christian religion.

Approximately two thirds of the "Christians" were led by Arrius of Alexandria (Egypt). They were monotheists who revered Jesus as Yahweh's anointed king, not as god. In other words they were essentially Jews who viewed Jesus as the Messiah.

The remaining third of the Christians were led by Athanasius of Alexandria. They were worshippers of the newly created trinity.

Constantine convened the Council of Nicea in 325 AD to decide the question. But before the monotheist majority could arrive at Nicea (in north western Turkey near Constantinople), the Council pronounced Jesus a god. Thenceforth the monotheists became the *Arrian Heresy*. Constantine's Christianity left the minor gods their prerogatives but changed their names and called them saints. It was through this "Nicene Creed" that Christianity made a true break with Judaism, which Constantine had little patience with, having imposed severe penalties on Jewish proselytizing in AD 330.

"The Council of Nicea transformed Christianity from a monotheistic mythology that could not have conquered a polytheistic world (into a religion that could and did)," wrote William Harwood in describing these events.[28] Thus the often made assertion that Judaism, after all, conquered Rome through Christianity is simply false. The religious dominance of Judaism in the west would have to await the rise of Calvinism and the Bank of England, in the 16th and 18th centuries, as discussed in Chapters 7 and 11.

Christianity also influenced the Empire: the Emperor was no longer a God, but represented God on Earth, his acts were inspired by God; his laws were promulgated with God's concurrence; and the privileges or titles conferred by him were as though conferred by God.

**B) Barbarians Have Been Blamed:**

Gibbon said the question wasn't why such a sprawling organization as Rome fell, but why it took so long to be finally "overwhelmed by a deluge of barbarians."[29]

Del Mar was among the first to disagree:

"The conquest of the Empire by barbarians was invented by the monks to account for the ignorance and mischief which their pagan predecessors had brought about."[30]

The idea that Rome fell to repeated invasions of Germanic tribes was set aside by Henri Pirenne's 1920 classic *Mohammett and Charlemagne*. He concluded that there simply weren't enough "invaders" to accomplish the feat; that possibly only 40,000 Visigoths had crossed the Danube and only 8,000 of them were warriors. Hardly a serious problem for Roman forces. While the Ostrogoths had temporarily rampaged through Italy, forcing the return of Roman troops from Britain, Pirenne concluded that "there was no break with what had been the economic life of the Empire"[31]

Del Mar, who had reached this conclusion 20 years earlier, also noted that the Roman system of land tenure and the organization of great estates survived and were still prosperous. The great domains of the church and of wealthy citizens were administered by candottore, who paid rent for them. These estates were vast self sufficient entities with sprawling holdings, sometimes not contiguous.[32]

**C) Growing Slavery Was A Factor:**

The social injustice and the Empire's brutality towards the average Roman was a factor in the decline. The Plebians became more like slaves. The Empire abolished the Jury system. Previously voluntary contributions to the Church became mandatory tithes under Augustus. Marriage, which had been a civil contract under the Republic, was made a religious one, borrowing monogamy from the Orient. People of eminence moved to retreats or to the country as Rome was filled with the Emperor's spies.

In Appian's words:

"(T)he race of slaves multiplied, while the Italian people dwindled in numbers and strength, being oppressed by penury, taxes, and service in the army. If they had any respite from these evils they passed their time in idleness, because the land was held by the rich who employed slaves instead of freemen"[33]

Tenney Frank noted:

"The old stock that had made Rome what it was no longer existed... to take the place of all these had been brought slaves in great hordes, and the children of these strangers were now the dominant element in and about the ruling city...When the Emperor himself wrote...for this confused population he wrote in Greek."[34]

The introduction of Christianity did not ameliorate the condition of Rome's four degrees of slavery. A great many of today's working people would fit into Rome's lightest slavery category - the "Nexus" (citizens compelled to work out a debt or ransom). The worst slavery degree was the "servus," the serf in feudal Rome. Yet even the serf, in theory, could not be made landless or homeless.

**D) The Oriental Satrapy System Devolved Into Feudalism:**

Alexander the Great's eastern conquests had unfortunately opened a conduit for transmitting oriental Kingship concepts westward. Despite the disapproval of his Greek comrades, and ignoring Aristotle's earlier warning against Eastern practices, Alexander assumed the sacred trappings of oriental royalty, insisting for example that all approach him on bent knee with head down. He also adopted the oriental system of ruling separate vassal kingdoms.

From the inception of Empire the Caesars used this Eastern system, where local vassal rulers governed independent fiefdoms. King Herod of Judea was such a ruler. These vassals had near unlimited power over their subjects as long as they kept payments and other exactions going to Rome. But the inhabitants of the fiefdom owed their allegiance to the vassal and the law of a fiefdom was not Roman, but the law of the local ruler. Over time this eroded Rome's structure and was transformed into the feudal system.

**E) The Moslems Have Been Blamed:**

Henri Pirenne's explanation of the eventual decline of Rome blamed it mainly on the spectacular rise of the Moslems.

The growth of Moslem power occurred with lightning speed. Mohammed was born in 570 AD and died in 630. Starting with a 120,000 man army, his followers subdued Syria, took Jerusalem, Aleppo and Antioch by 638. In 643 they re-opened the Arsinoe canal near Suez. They conquered Egypt and overran Persia by 651. In 655 they destroyed the Byzantine fleet at Lycia. By 709 all of northern Africa was conquered. In 711 they entered Spain, occupying the whole peninsula in three years, governing it from Damascus. Their power was established from India to the Atlantic.

Pirenne's thesis was that the Moslems destroyed Rome's economic life:

"Islam shattered the Mediterranean unity which the Germanic invasions had left intact. From the middle of the 7th century, navigation between Moslem ports of the Aegean Sea and those parts which remained Christian had become impossible...the only persons who were still engaged in commerce were the Jews. They were numerous everywhere. The Arabs neither drove them out or massacred them."[35]

But blaming Rome's decline mainly on Moslems poses some problems, one of which is timing. By 700 AD Rome's decline was already a fact, and by 800 one can find the first indications of rejuvenation, stemming from Venice's trade with the Moslems.

## OUR MONETARY INTERPRETATION OF IMPERIAL ROME'S DECLINE

Rome's loss of control over its money system left the society open to all sorts of random problems, the way the human body becomes vulnerable to chance diseases when its immune system malfunctions. It accelerated the destruction of Roman law, and the concentration of wealth into great landed estates. This concentration displaced Roman citizens with slaves, fueled civil warfare and led to dictatorship. Even dictatorship inevitably declined in tandem with the legal and money systems, the one affecting the other, in a downward spiral until by Diocletian's reign we find the money system so weak that taxes were collected in farm produce rather than money. Within that context we present a monetary explanation of continued Roman decline, from the reforms of Constantine.

Under the strict gold Bezant system inaugurated by Constantine in July, 325 AD, "debasement" of the gold coins was not tolerated. Perhaps out of a misguided religious motive, the commodity concept of money was taken seriously. Whenever that has happened in modern times, it usually spelled disaster and this would be the "mother" of all such disasters.

Constantine personally "ordered death for counterfeiting, and burning of public minters committing falsification in the coining of money...because the crime is greater in him who commits this under public authority."[36] The Byzantine *Book of the Prefekt* recites strict controls on those handling money professionally, and on jewelers who fabricated gold artwork.

Money changers who received a counterfeit Bezant and didn't report it immediately were flogged, shaved and exiled. Goldsmiths needed a license to operate, and were only allowed to work gold in their shops, not at home. They could purchase no more than one pound of gold bullion at a time.

These regulations had their effect. The gold Bezant was 70 grains (68 pure) when inaugurated by Constantine in 324 AD, and after fluctuating slightly was still 68 grains in 1025 AD.

**But this constancy occurred under declining supplies of metal. William Jacob in his 1831 classic *The Precious Metals* noted that "in the period from about 480 to 670 or 680, the greatest diligence has been able to find no trace in any author of the operations of mining having been carried on."[37]**

More recently, Peter Spufford's extensive monetary research has added that:

"For nearly a century virtually no silver coin was struck at all in the west."[38]

Jacob's study indicates a declining supply of metals, just from wear and tear, which he estimated at one-third of the total coinage weight, per 100 years. Professor Grierson's 20th century studies arrived at a similar conclusion. Since the Bezant's weight is extremely consistent at 64-68 grains, a reduced gold supply would mean fewer coins, causing a deflation over several centuries, potentially a major cause of decline.

What about existing supplies? Could a lesser supply of metals perhaps not have been critical? Bezants are referred to in numerous literary records, such as the 6th century *Christian Topography II*, in which the monk Cosmas wrote:

"Another mark of the power of the Romans...is in their nomisma that

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*3c.* **An early nomisma (left) of Constantine the Great (308-37 AD), weighing c. 68 grains. A late nomisma (right) of Constantine VIII (1025-28 AD), weighing c. 65 grains. But this consistency took place over centuries of generally declining availability of gold and silver.**

every nation conducts its commerce, and that it is accepted in every place from one end of the earth to the other."[39]

Such references, and coin hoards found throughout Europe, caused Pirenne to question a scarcity of precious metals: "What we know...concerning the Merovingian (Frankish) Kings' wealth in gold, and the wealth of the Church, and of private individuals proves that there was a very considerable stock of gold in the west, and yet there were no gold mines.... One thing is certain - there was an active circulation of money."[40]

This is however a very subjective judgment, and Pirenne presents no real evidence of circulation. Later historians concluded that he overemphasized Merovingian economic activity.[41]

While there remains the possibility that Byzantium could still obtain sufficient supplies of gold bullion from India, this is unlikely because of the shortage of silver and other exportable goods. Also, the more commonly usable silver coinage, not gold, would have been more crucial to general economic activity.

## THE CONCENTRATION OF WEALTH

Until now, historians have not considered how three critical factors combined with a diminished supply of precious metals. The first was the effects of a dramatic concentration of wealth into the Church and to a small number of powerful persons. A large proportion of private estates was being left to the Church in death bequests. The only Emperor who attempted to stop this concentration was Gratian Gallienius, who briefly confiscated the Pagan Church wealth to the state treasury, but was killed for it in 268 AD.[42] Eventually the Church held one-third to one-half the accumulated lands and wealth of the Empire, most likely including the existing coinage.

This concentrated wealth held by a few individuals could produce a similar effect as a great scarcity of coinage. The question is not only the quantity of money in existence, but how it is distributed and available for commerce and industry.

*The Empire's vast wealth and power became ever more concentrated, culminating in its ultimate concentration behind the 120-foot thick walls of one luxurious fortress city - Constantinople. This concentration probably inflicted a punishing, multi-century deflationary depression on the rest of the empire, especially in the West.* Commerce and industry stagnated. Large sailing vessels disappeared. Arts and sciences were lost - even the knowledge of cement making disappeared.

The absence of a legally based monetary power in the West acted to diminish the rule of law. The deterioration of the rule of law acted to diminish the monetary power, and so on. Money could not function as a legal institution. The Western administration could not even stop the city of Rome from being temporarily overrun. An unending depression which we call the Dark Ages took hold, and was not shaken off until the deflation began to end, starting at the close of the 8th century.

The two other crucial factors - our ancient monetary mechanisms already described - combined to further depress the Empire's money

*3d.* **Constantinople - "The City of the World's Desire." Its hundred and twenty foot thick walls are still one of Europe's great sights. For centuries they shielded the metallic hoards of the Christian Byzantine Roman Empire until the Fourth Crusade's sneak attack on the great city.**

system, by removing or at least diminishing the potential use of even a crude commodity based money. Only the Basileus could mint gold coinage. Local Princes were restricted to minting silver. But no new silver was being mined; and the existing silver coinage was being drained to the east because in Europe, 12 ounces of silver exchanged for one ounce of gold; but in India, 12 ounces of silver exchanged for 2 ounces of gold. This dichotomy generally caused silver to flow east, century after century.

The combined evidence on wealth concentration, the absence of mining, the normal erosion of the coinage through usage and the tendency of precious metals - especially silver - to flow eastward, presents a powerful argument that an inadequate supply of circulating medium - of money - was a (the?) major factor in the continued decline of the Roman Empire.

*Behind that scarcity, ultimately, was a huge error in monetary theory, that some ideologues still make today - the false belief that money should be a commodity or economic good; that is, wealth, rather than a legally based abstract power.*

Another lesson from the Byzantine system: monetary stability can be overdone, and should never be approached with ideological rigidity.

MOSLEM ATTACK ON THE EMPIRE'S "MONETARY JUGULAR"

We now have the background to more fully understand Abd El Melik's coinage. Pirenne's laying the blame upon the Moslems was partly correct, but for the wrong reason. Alexander Del Mar has identified the monetary nature of their attack.

Moslem coinage had at first imitated the money systems of the conquered countries. Initially the silver coins they used were those of the Persian Empire, and the gold coins were minted in Damascus under the authority of Byzantium, with Roman stamps, demonstrating the limited Moslem sovereignty.

Abd El Melik's coinage changed that. His gold Dinars weighed 65 grains, and were .98 fine, very close to the Bezant. Striking the coins with his own image, brandishing a sword, was a bit brazen. But the real danger to the Basileus was his gold/silver ratio. For he minted his silver Dirhems at 43 grains, .96 fine; and since the value relation between the Dirhem and the Dinar was ten Dirhems to one Dinar, he thereby established a ratio of gold to silver of about 7 to 1!

*This would mean that Moslems could exchange their gold coins for* *nearly twice as many European silver coins as Moslem silver coins of the same weight.* The Basileus had tried to keep such trading to itself, overland to India if necessary, doing the exchange in reverse - exchanging silver for twice as much gold. Byzantium soon stopped minting silver coinage for its subjects, and forbade all trade with the Moslems. Subsequent attempts to revive extensive silver coinages would be short lived and quickly abandoned.

## CONFUSION OVER THE MOSLEM RATIO

Del Mar first described this Moslem money system in 1895, but his explanation has been ignored, perhaps because accepting it would force a re-thinking of Adam Smith's "classical" monetary views, and some of Smith's other notions as well.

The problem arises because it is known that in their conquests the Moslems seized 5 million marks weight of gold and 100 million marks weight of silver. Eminent scholars of the mid 20th century have therefore been pressured to think the Moslems had to lower silver in relation to gold, because silver became so abundant:

"...But all that we know of history suggests that the ratio must have changed substantially in favor of gold," wrote the renowned numismatic scholar Philip Grierson in 1960.[43]

They put aside the more obvious evidence on the ratio, which they are aware of:

"The Arab writers...harp endlessly on the fact that the weight relationship of the (gold) Dinar to the (silver) Dirhem was as 10 to 7," wrote Professor Grierson.

The Moslem sacred texts gives the **value relation** of the coins:

"The law of the Prophet levies a tithe on all possessions of the precious metals amounting to...200 silver Dirhems or 20 gold Dinars."[44]

From that fact we conclude that the value of 200 silver Dirhems was about equal to 20 gold Dinars. Thus the **value relation** of one silver Dirhem coin to one gold Dinar coin was 10 for one (200 Dirhems divided by 20 Dinars). Now if the gold Dinar weighed the same as the silver Dirhem, then clearly the gold/silver ratio would have been 10 to 1.

However, we know that the weight relationship of the (gold) Dinar to the (silver) Dirhem was 10 to 7. Since the silver Dirhem weighed only 7/10 of what the gold Dinar weighed, by multiplying 7/10 times the value relation of 10 to 1, we get a gold/silver ratio of 7 to 1; which was the value relation of equal weights of gold and silver - the "ratio."

Thus the Moslem gold/silver ratio was 7 to 1. I've explained this in great detail because it is a fact of some importance, as we shall see below.

Instead, using single sentence sources from admittedly faulty commentators, some scholars used a Dinar - Dirhem value relationship of 1 to 20, which gives a gold/silver ratio of 14 to 1. Professor Grierson extracts this indirectly from a 10th century lexicographer called Al Djawhri, which he (Grierson) saw quoted (misquoted?) in another work, the Lexicon Arabico-Latinum, written in 1653 by J. Golius. Grierson's comment on Golius should be enough: "This is still worth reading though the details cannot always be trusted and a number of the conclusions are incorrect."

Numismatists must stop such bending over backwards to preserve Adam Smith's erroneous assumptions. As we've seen, it is not the first time his views have caused a misreading of monetary history.

## UNDERSTANDING THE RATIO EXPOSES ADAM SMITH'S MONETARY ERRORS

This dichotomy in the ratio flies in the face of Adam Smith and the so-called Classical economist's assumptions, as well as those of Karl Marx, on the value of gold and silver, which they asserted was determined by their cost of production, and amounts available. But they never bothered to check on the cost of mining!

Historical evidence indicates that nations and Empires did set the gold/silver ratio, based on the amounts they had, but exactly opposite to the predictions of "free market" theories. *In setting the ratio, a strong nation would raise the value of the metal that was most abundant!*

For example, when Caesar took over, gold supplies were increasing, from newly conquered provinces. He raised gold's value from 9 to 1, to 12 to 1.[45]

After the Moslem Empire plundered 20 times more silver than gold, they set the ratio at about 7 to 1, raising the relative value of the silver, which they held in greater abundance. It made sense for them to set the value of silver high, since they had so much of it. A large supply does not guarantee a low price, when the arbiter has the power to enforce prices. They knew no one was strong enough, economically or militarily, to break their ratio.

Much later Spain plundered 1,230 tons of gold and 60,440 tons of silver from its 1493 to 1690 plunder of America.[46] These vast amounts overshadowed existing supplies and by their quantities suggested a ratio of about 49 to 1; but the Spaniards set the ratio at 13.3 to 1 in 1546, and 14 and 15 to 1 in the 1600's, keeping the value of their abundant silver high.

*It would take 400 years for "the market" to adjust the values of the metals to that indicated by their supply. What fixed the gold/silver ratio was the law and the power of the dominant nation issuing the coinage.*

Thus a correct understanding of the ratio even calls into question the economist's most hallowed axiom - the so-called "law" of supply and demand, which in part asserts that a large supply of an item tends to lower its price (in the here and now, not the hereafter!). But in fact the economists ignore the question of power. An awareness of this potential to "overvalue the abundant" was one factor that helped lead to our Chapter 1 concept on why gold, which was abundant in the Temples, was monetized in the first place.

## THE MOSLEM'S ARISTOTELIAN MONETARY TRADITION

Mohammed had been a merchant in his youth, and understood commerce. *The prophet Mohammed personally taught his followers of the legal, nominal nature of money, a fact of immense potential importance to modern day monetary reform.* He instructed his followers to consider "overvalued" copper coins as much a currency as gold and silver coinage.[47] Thus these Moslem monetary concepts are in the Aristotelian monetary tradition - the truly "classical" monetary viewpoint (see Chapter 23). But Mohammed's followers quickly regressed to precious metals systems, pressured by their involvement in conquest.

Up to the 13th century, only the Moslems and Byzantium struck gold coins in significant numbers, in pieces of near identical size. Moslems coins have been found in hoards throughout continental Europe, England, and Scandinavia.

The Moslems worked the gold and silver mines in Spain with slave labor. Their occupation of Spain provided a conduit for the movement of Jews from Asia to Europe, which "constituted the only economic link which survived between Islam and Christendom or one may say between East and West," wrote Henri Pirenne.[48]

Actually there was another link between East and West - a crucial one - Venice.

## DEl MAR'S TABLE OF THE ROMAN GOLD/SILVER RATIO 78 BC - 1025 AD [49]

| Year | Emperor | gold Aureus | silver Denarius |
|---|---|---|---|
| 78 BC | Sulla (dictator) | 168.3 grains | 60.6 grains |
| | | 25 silver Denarii = 1 gold Aureus; ratio 9 to 1 | |
| 45 BC | Julius Caesar | 125 grains | 60 grains |
| | | 25 Denarii = 1 Aureus; ratio 12 to 1 | |
| 13 BC | Augustus | 121.6 grains | 58.4 grains |
| | | 25 Denarii = 1 Aureus; ratio 12 to 1 | |
| 211-215 AD | Caracalla | 112.5 grains | 54 grains |
| | | 25 Denarii = 1 Aureus; ratio 12 to 1 | |
| 215-217 AD | Caracalla | 91.67 grains | 54 grains |
| | | 24 Denarii = 1 Aureus; ratio 12 to 1 | |
| | | | **silver Argentus (Antonionous)** |
| 270 AD | Aurelian | 74 grains | 33.5 grains |
| | | 25 Argentei = 1 Aureus; ratio 12 to 1 | |
| 274 AD | Aurelian | 90 grains | 45 grains |
| | | 24 Argentei = 1 Aureus; ratio 12 to 1 | |
| | | | **silver Denarius** |
| 284 AD | Diocletian | 90.34 grains | 45.2 grains |
| | | 24 Denarii = 1 Aureus; ratio 12 to 1 | |
| by 310 AD | Constantine | 72 grains | 36 grains |
| | | 24 Argentei = 1 Aureus; ratio 12 to 1 | |
| | | **gold Solidus (Nummus)** | **silver Miliaresion** |
| 325 AD | Constantine | 68-70 grains | 70 grains |
| | | 12 Miliaresa = 1 Solidus; ratio 12 to 1 | |
| 491-518 | Anastasius | 70 grains | 70 grains |
| | | 12 miliaresia = 1 Solidus; ratio 12 to 1 | |
| 705-711 | Justinian II | 68.35 grains | 70 grains |
| | | 12 miliaresia = 1 Solidus; ratio 12 to 1 | |
| 802-811 | Nicephorous I | 63 ½ grains | 63.5 grains |
| | | 12 miliaresia = 1 Solidus; ratio 12 to 1 | |
| 976-1025 | Basil II & Constantine VIII | 68 grains | 68 grains |
| | | 12 miliaresia = 1 Solidus; ratio 12 to 1 | |

Note: Del Mar goes into more detail than presented here, to include the official values for bronze coinage during each period.

## WHAT ROME TEACHES US ABOUT MONEY

Summarizing Rome's long monetary experience, several important lessons are apparent. First, that governmental authority established a money system based on law, not commodity value. We saw the necessity for society to keep the control of its money system within the nation and not allow that control to slip away to foreign nations or merchants or even private elements within the nation. For the control of the money power is inseparable from national sovereignty. If that control has become alienated, so has sovereignty, and the nation will degenerate.

We observed how the control factor becomes very vulnerable during major warfare. Especially during such periods, careful thought must be given to monetary policies, even when emergency conditions require rapid action. We noted how under such conditions an advanced nomisma system degenerated into a commodity-based money. We saw how basing the money system on commodities rather than law accelerates the concentration of wealth and power into the hands of a plutocracy, quickly destroying the possibility for social justice. This evil process was unstable - it did not self correct. Without social justice the society is on a path to destruction.

We observed how commoditizing Rome's money system allowed the market aspects of the commodity to interfere dramatically with its function as money. For example, the dichotomy in the gold/silver ratio between East and West, which caused silver money to flow east toward India, pressured Roman money systems for several centuries.

We saw how a misplaced desire for monetary stability can be overdone and lead to an extended, debilitating deflation. Finally, we noted that examining the historical facts regarding the gold/silver ratio was enough to call into question the monetary concepts of Adam Smith, and even to challenge the economists' sacred "law" of supply and demand!

Today, the wonderful advances in technology that we enjoy require that nations employ reason and morality in structuring their money systems. For if we don't, these marvels of technology can too easily be turned into engines of risk and destruction, as we have seen in the attack on the World Trade Center in New York City. Since a large number of us are thinking human beings, the author is confident that the correct decisions can eventually become politically feasible. We need not repeat the kinds of errors that we saw Rome make.

## *Notes to Chapter 3*

[1] Alexander Del Mar, *History of Monetary Systems,* (1895, repr., New York: A M. Kelley, 1967), pp. 111-17.

[2] Del Mar, cited above, quoting Zonoras, and pp. 164-74.

[3] Theodore Mommsen, *The History of Rome*, (New York: Scribners, 1903), vol. 4, p. 181. Also see vol. 5, pp. 436-7.

[4] Francois Lenormant, *Monnaes de Antiquita*, (Paris: Bibliothetic Nationale, Rallen Et Fevardent, vol.1-3, 1878), vol. 2, p. 427.

[5] Harold Mattingly, *Roman Coins*, (London: Metheun, 1928), p. 254.

[6] Dean Miller, *Imperial Constantinople*, (New York: J. Wiley, 1969) pp. 70-1.

[7] Del Mar, cited above, pp.135-36. Del Mar demonstrated that scholars obtaining a ratio of 14.4 to 1, from the 5th century Codex Theodosian, have misinterpreted the "Libra" there as a weight unit instead of a money of account.

[8] William Jacobs, *The Precious Metals*, (1831, repr., New York: A.M. Kelley, 1966) p.354.

[9] Del Mar, cited above, p. 124.

[10] M. Rostovtzef, *Social and Economic History of the Hellenistic World*, (Oxford: Clarendon Press, 1983), pp. 385-94.

[11] Tenny Frank, *Economic History of Rome*, (New York: Cooper Square Pub., 1962, 1920), p.379, and footnote on p. 416.

[12] Michael Grant, *Roman History from Coins*, (Cambridge Univ. Press, 1958) p. 81.

[13] Pliny The Elder, *Natural History*, (Xii, 18) and (XXiii, 15).

[14] A.H.M. Jones, *Asian Trade in Antiquity*, in Islam & The Trade Of Asia, edit. D.S. Richards. (Univ. of Pennsylvania, 1970) pp. 2-10.

[15] Andrew Burnett, *Coinage in the Roman World*, (London: Seaby, 1987), pp. 98, 107.

[16] E.M. Smallwood, *The Jews Under Roman Rule*, (Leiden, Brill, 1981), pp. 389, 394, 421.

[17] Edward Gibbon, *Decline and Fall of the Roman Empire*, Great Books, Encyl. Brittanica, Univ. of Chicago Press, Vol. 40, v. 1, Ch. 16, p. 207, & fnote 1 (p.728).

[18] Jacob Neusner, *The History of the Jews of Babylon*, (Scholar's Press, 1984), p. 78.

[19] Alexander Del Mar, *Money and Civilization*, (1867, repr., New York: Burt Franklin, 1969), p. 102.

[20] John Locke, *Essay On Money And Bullion*, 1718, pp. 19-20.

[21] Del Mar, *History of Monetary Systems,* cited above, p. 471.

[22] Frank, cited above, pp. 484-5.

[23] Frank, cited above, p. 490.

[24] Gibbon, cited above, Vol. 41, v. l, p. 271.

[25] Hilaire Belloc, *The Crisis of Civilization*, 1937 Fordham lecture series, p. 44.

[26] Gibbon, cited above, Vol.41, v.1, Chapter 38, part 6, General Observations on

the Fall of the Roman Empire in the West, p. 631.

[27] James Frazer, *The Golden Bough*, (New York: Macmillan, 1953), p 420.

[28] William R. Harwood, *Yahweh and Jesus, Mythology's Last Gods*, 1983 doctoral thesis, accepted by Columbia Pacific Univ., pp. 338-9.

[29] Gibbon, cited above, again Vol.41, v.1, Chapter 38, part 6, General Observations on the Fall of the Roman Empire in the West, p. 631.

[30] Alexander Del Mar, *Middle Ages Revisited*, (New York: Cambridge Encyl., 1900), Ch. 5.

[31] Henri Pirenne, *Mohammed and Charlemagne*, (New York: Meridian, 1957), p. 116.

[32] Del Mar, *Middle Ages Revisited*, cited above, Ch. 5.

[33] Appian (Bell. Civ. I, 7), as quoted by Frank, cited above, p. 204.

[34] Frank, cited above, pp. 478-9.

[35] Pirenne, cited above, pp. 164, 165.

[36] M. Hendy, *Studies in the Byzantine Monetary Economy*, (Cambridge Univ. Press, 1985), p. 450.

[37] William Jacobs, cited above, p. 236.

[38] Peter Spufford, *Money and its Use in Medieval Europe*, (Cambridge Univ. Press, 1988), p. 12.

[39] *Cosmas Indocopleastes*, edit. E. Winstedt, as quoted in Hendy, cited above, p. 81.

[40] Pirenne, cited above, pp. 111-114.

[41] William R Lyan, *Pirenne's Thesis Today*, from *The Origins of the Middle Ages*, (Norton, 1972, as excerpted in *The Middle Ages*, vol. 2, Knopf, 1983).

[42] Del Mar, *Middle Ages Revisited*, Ch. 6.

[43] Philip Grierson, *Monetary Reforms of Abd Al Malik*, Journal of Economic & Social History of the Orient, (vol. 3, Oct. 3, 1960), p. 259. Also Grierson's, *Dark Age Numismatics*, (London: Varorium Reprints, 1979), p 239.

[44] The Moslem sacred text, the Sunan of Abu Dawud, (about 750-800 AD) in the section on Zakah calls for alms of 5 silver Dirhems out of 200 Dirhems, or ½ Dinar out of 20 Dinars, establishing a value relation of 1 gold Dinar to 10 silver Dirhems. This citation was graciously provided by Brother Mukhtar Maghrawi of the Albany Islamic Center.

[45] Alexander Del Mar, *Money in Ancient Countries*, (London: Bell, 1895), pp. 290, 300, 301.

[46] Del Mar, *Money and Civilization*, cited above, p. 102.

[47] A.L. Udovitch, *Partnership and Profit in Medieval Islam*, (Princeton Univ. Press, 1970), pp. 52-54, 177.

[48] Pirenne, cited above, p. 174.

[49] Del Mar, *History of Monetary Systems*, cited above, pp. 70-99.

# CHAPTER 4

# RE-INSTITUTING MONEY IN THE WEST

"The advantage to society of having enough rule of law to create fiat money is enormous and not just a matter of degree..."

The breakdown of law and of money continued to operate negatively, the one upon the other for centuries, in a slow downward spiral of societal decay. Re-building them would take centuries more. In that process we observe several attempts to resurrect commodity based moneys, which in many respects are more of an advanced form of barter than a true money system.

Creating such commodity moneys requires expending a great deal of work in prospecting, mining, refining, and minting. Maintaining that money against the attacks of coin clippers, metal exporters and normal wear and tear over the decades also requires great energy.

These heavy burdens tend to neutralize the benefits eventually derived from such money systems, leaving mankind trapped on an economic treadmill. This is especially true considering the low state of resources that societies had available to deploy in those darkest ages of Europe. At first the precious metals systems could be implemented mainly when the metals could be obtained by conquest or plunder, or by capturing enough slaves to operate mines.

This plunder/conquest basis of precious metals systems continued well into the 17$^{th}$, 18$^{th}$, and 19$^{th}$ centuries. Modern 19$^{th}$ and 20$^{th}$ century money systems, which claimed to be precious metals systems, generally depended on an element of fraud rather than force, as we shall see.

Thus the advantage to society of having enough rule of law to create fiat money systems is enormous. It is not just a matter of degree, but produces a different kind of result altogether. It would take until the 13th and 14th centuries to reach that critical threshold in Europe.

# CHARLEMAGNE'S NORTHERN REVIVAL: A "FALSE DAWN"[1]

"Money should never depend on the presence of exceptional individuals and available ore deposits..."

An early attempt to rebuild the money system was made by Charlemagne (742-814), who is often credited with establishing a new monetary standard and with re-instituting weights and measures in the West, from which the pound, shilling and pence notations evolved. More accurately, Charlemagne's system was a revival of some Roman coining traditions.

## POUNDS, SHILLINGS AND PENCE

Charlemagne's system of Livres, Sols, and Deniers had existed from at least 418 AD as seen in the Roman Code of Theodosius.[2] This "money of account" system had served to unify different Roman coinages issued over time so that their relative values were understood. The alternative would have been an expensive re-minting, which would have meant the loss to the melting pot of the numerous historical monuments and commemorations in the old coins.

## CONQUEST AND SLAVERY

The basis of Charlemagne's Empire was military conquest and the enslavement of the subjugated peoples, mostly Saxons. Using this extensive slave labor he re-started or intensified precious metals mining at Chemnitz, Kremitz, and Rauthensberg, mostly of silver, working the slaves to death in the mines. Those slaves not needed for mining were sold to the Moslems through Jewish or Venetian intermediaries.

## THE SILVER PENNY

In the century prior to Charlemagne, when small amounts of silver coins once again began to be minted, they imitated the appearance of the

Triens, a small Byzantine gold coin, and were sometimes issued by religious authorities such as the Bishop of Lyon, the Abbey of St. Martin of Tours, or of St. Denis near Paris. The silver coinage was found mainly in a corridor between Provence (the French area around Nice) in the South and present day Belgium in the North.

To mint Charlemagne's silver into pennies, many new mints were opened at Dorestad, Aachen, Bonn, Cologne, Maastricht, and Namur among others. Charlemagne took a "hands on" approach to his coinage. At one point he considered producing all the coinage at his Palace mint at Aachen, now a picturesque German resort spa near the Belgium border. Eventually Charlemagne had mints as far south as Pisa and Rome.

His centralized control is evident in the uniformity of the coinage. However, the coinage was still scarce as indicated by taxes being collected mainly in services and produce, rather than coinage.[3]

CHARLEMAGNE'S POWER BALANCING ACT

The Moslem revolt from 630 AD took the African provinces and eventually Spain from the Byzantine Roman Empire and dominated the crucial east/west trade. Then in 755 AD the Bishop of Rome seceded from Byzantium's domination. These factors, plus distance, combined to give Charlemagne a degree of independence from Byzantium. He

*4a.* **A silver penny of Charlemagne's successor Louis the Pious (814-40). After the lost Treaty of Seltz, Charlemagne raised the gold silver ratio to 12 to 1 in line with Byzantium's ratio; an indication that he recognized the Basileus in Constantinople as the supreme pontiff over the Papacy in Rome.**

increased his autonomy with a complex power balancing between Rome, the Moslems and Constantinople.

He used military power to keep Byzantium at bay and held out the threat of Moslem power by maintaining good relations through Jewish Ambassadors, with Haroum Al Raschid, Emir of the Moslems in Spain. For some reason Charlemagne encouraged or allowed the establishment of a Jewish royal house at Narbonne, and the Caliphate of Baghdad sent him a descendant of David to be King there. The house is said to have lasted for five centuries.[4]

## CHARLEMAGNE AND THE PAPACY

Charlemagne's relations with the Pontiff in Rome appear more complex because of attempts to alter the historical record:

"It cannot be too often repeated that the entire stream of history has been corrupted by ecclesiastics ... Every historian has discovered these corruptions, every one has either boldly or timidly condemned them. Yet there is always a new generation of unread people to whom these discoveries have to be again unfolded, and these condemnations repeated," wrote Del Mar.[5]

The Pope claimed to be the sacred ruler over the West through the "*Decretals of Isadore*," forged documents in which Constantine the Great had supposedly given the throne of the West to the Bishop of Rome in the 4th Century. The secession was triggered partly by orders from Emperor Leo in 737 to remove all images from the churches and to raise the statues out of touching reach, matters of some urgency to the literal minded in the West.

The use of forgery rather than an outright declaration of independence underscores the power that the Basileus, God's "representative" on Earth, continued to have over men's minds.

The evidence shows that the Roman Papacy became subservient to Charlemagne, depending on him and on his predecessor Pepin, for military rescue when Byzantium's troops came calling. Del Mar maintains that Pope Hadrian issued coinage as a vassal, in Charlemagne's name, in 772.[6] There is also the unusual Christmas day ceremony in 800 AD with Pope Leo in Rome at which Charlemagne crowned himself Emperor.

## WAS THE BASILEUS STILL PARAMOUNT IN THE WEST?

Since control over money indicates sovereignty, an interesting aspect of Charlemagne's coinage is the insight it may give to his relations with Rome and Byzantium. According to Del Mar, the


*4b.* **Charlemagne's attempt to re-instate money in the West by working slaves to death in silver mines had only limited and temporary success. Europe remained on a monetary treadmill.**

Merovingian Franks had received permission to mint gold coinage using Byzantine markings. Over centuries they had removed the Byzantine features on the coinage. Charlemagne had continued this coinage at a gold/silver ratio of about 10 to 1.

Then around 803 AD he concluded the now lost Treaty of Seltz with Byzantine Emperor Nicephorus I:

"He made with them the most binding treaty possible that there might be no occasion of difference between them," wrote Eginhard.[7]

Around this time Charlemagne changed the value of his silver coinage to bring it to the Byzantine 12 to 1 ratio with gold. The new pennies were 17.5 grains of silver, 12 of which were declared equal to one Byzantine Sou d'Or containing 17.5 grains of gold; giving a 12 to 1 ratio. Furthermore, Charlemagne appears to have stopped minting gold coinage. Del Mar concluded from this that he recognized the religious supremacy of the Basileus in the Treaty of Seltz.[8]

More recently, Peter Spufford's work indicates that Charlemagne's successor, Louis the Pious, continued to mint gold coins until about 818.[9]

While the Moslem revolt had established their sovereignty, Charlemagne probably did not achieve a comparable independence from Byzantium as measured by one ancient sign of it - the gold coinage prerogative. Byzantine power was limited but probably still paramount in the west.

Monetary conditions regressed soon after Charlemagne's death. The mines ran out of silver and the Carlovingian Empire ran out of conquests and slaves. The next short term coinage revival in the north would await the discovery of silver in Europe's Harz mountains in the 990s.

## THE RATIO MECHANISM WORKED AGAINST CHARLEMAGNE'S MONEY

The ancient ratio mechanism - the difference in the gold/silver ratio between East and West - continued to put pressure on the already difficult monetary situation of Charlemagne and his successors. During most centuries silver continued to flow east, which meant that Europe's silver money supply was continually being exported to India.

*One lesson of the Charlemagne era is that money systems should never be dependent on the presence of exceptional individuals or the existence of available gold or silver deposits.*

# SUNRISE ON THE MEDITERRANEAN: THE RISE OF VENICE

"Venice recognized itself from the first as a strange and mysterious creation - the fruits of a higher power than human ingenuity."

Jacob Burckhardt[10]

While the East/West ratio mechanism worked against Charlemagne, Venice was able to harness the process to its advantage, thereby gaining a pre-eminent position in the West's economic affairs from 800 to 1500 AD, laying the foundations for Western Renaissance.

## VENICE'S UNIQUE BACKGROUND

The origin of the Venetians is still unclear. They were not of Latin stock nor a Phoenician colony but possibly migrated from the southern coastal area of the Black Sea. Renowned for their skill as mariners and traders, the city fathers still practice the ancient ceremonial ritual of "marriage with the sea," where a gold ring is annually thrown into the waters.

Venice had been the 17th Province under Constantine, but in 452 AD Attila the Hun swept into Venice and slaughtered every one except the one or two hundred families able to take refuge on the islands of the lagoon. Venice slowly rebuilt based on fishing and salt manufacture and became a republic in 697 AD with a constitution that would last over 500 years. Frederick Chapin Lane called her the "first capitalistic society."

Attila's holocaust had a leveling effect on Venetian society - everyone had to start over again. The aristocracy would be based more on ability than on chance inheritance. This aristocracy took a democratic form with a spirit of cooperation acting for the benefit of the Republic. They lived and ate frugally, later placing legal limits on luxuries when, as Longworth noted, "women were showing an unhealthy proclivity for conspicuous consumption."[11]

Another leveling factor was Venice's armed citizenship. She needed large numbers of free men to row her ships, a large portion of whom had to be armed with bows for defense.

Family partnerships were the basic unit of business and were run under state regulations. Later as capital accumulated they used a form of partnership called the Collegenza, borrowed from the Moslems, where the working partner went to sea and the investing partner stayed home. They shared the profits but losses belonged to the investing partner.

## THE INDIAN TRADE THROUGH EGYPT'S ARSINOE CANAL

Rome's Oriental trade had been conducted both overland and through the Red Sea via the Arsinoe canal, which had been constructed as early as the time of Pharoah Ramses II. Over the centuries it would get filled with sand and eventually be re-opened. At one point the ruler of Egypt, Ptolemy Philadelphias, named the canal after his wife/sister, Arsinoe. The canal silted in again and in 639 AD the Moslem ruler Amri began clearing it.[A]

Early in the 8th Century as the population of Italy reached its lowest ever recorded levels, Venice ignored Byzantium's prohibition and began trading with the Moslems. The profits on this trade were immense - hundreds of percent per shipment. Venice was tapping into the low Asian gold/silver ratio in India through the Moslems of Alexandria. Her rapid accumulation of capital began with this trade.

## VENICE HARNESSES THE EAST-WEST RATIO MECHANISM

Two forces were put to work that helped build Venice and created the foundations for the European Renaissance. First, the canal increased the safety and ease of shipping goods between East and West. Second, the East's 7 to 1 gold/silver ratio gave the Venetians up to an additional hundred percent profit on exchange. *The importance of this extra boost should not be underestimated, for whichever state dominated the ratio trade usually dominated in the West.*

The force that had for centuries been working against Europe's silver moneys was turned to Venice's direct advantage. The fiat nature of this difference in the gold/silver ratio between East and West should be remembered.

From the East came spices, especially pepper; silks, gold weaved cloth, perfumes, drugs and gold. The Venetians sold these goods inland at Pavia, which became the chief commercial center of southern Europe. To the East went slaves, timber, iron and silver.

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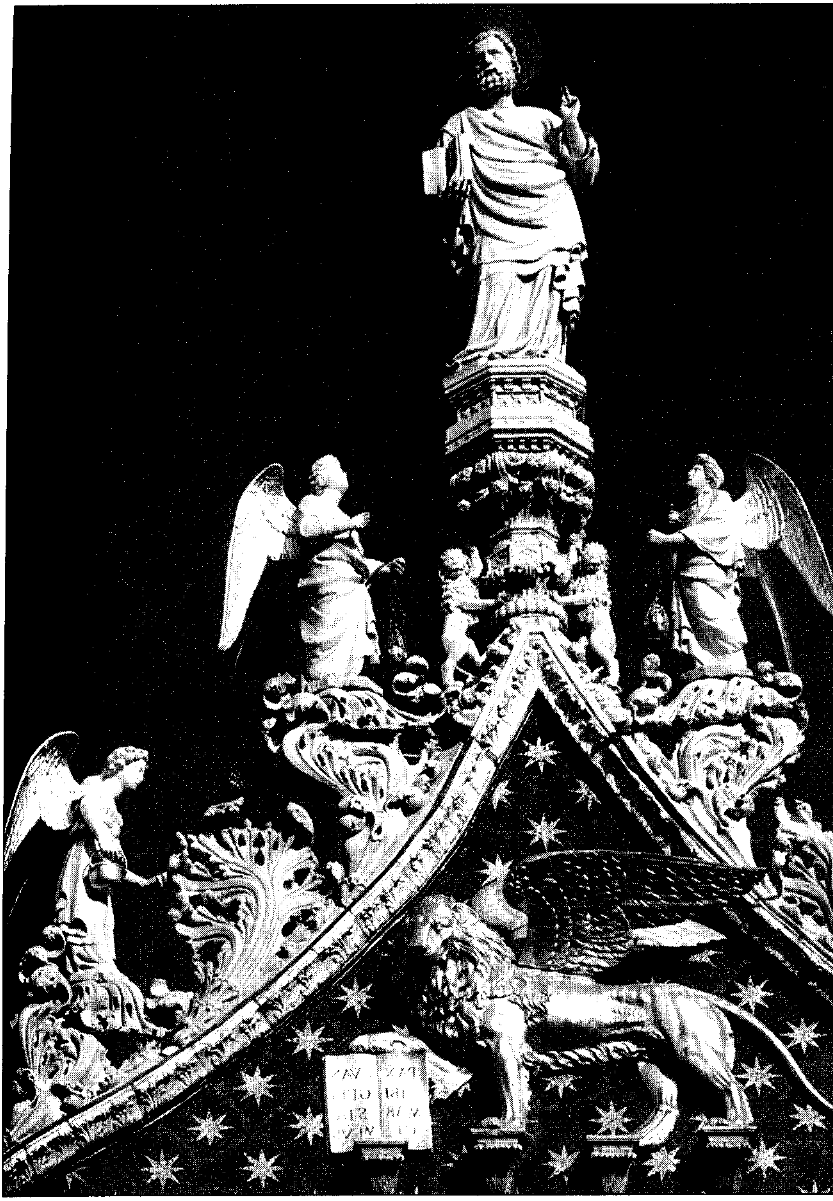
[A] Del Mar gives the canal's route as follows: "The Ptolemaic (and Roman) route was by Alexandria, the Nile, the Canal, Berenice, Sabia, and Muscat. It is fully described in the 'Periplus Maris Erythraei' of Arrian."



*4c.* **St. Mark and his lion, atop his Basilica, at St. Mark's Square in the heart of Venice. According to legend, St. Mark's corpse made a less than graceful entrance into the city, where it was used to bolster her political and religious independence from Constantinople.**

## THE VENETIAN FLEET

The Indian trade led to the growth of Venice's fleet, which became the key to her future development, for her navy could fight as well as trade. According to Del Mar, "It is in the trade of Venice with Alexandria that we hear of ships with sails for the first time since the classical ages."

In 1104 Venice founded the "Arsenal," Europe's greatest shipyard or industrial enterprise of any kind. She built ever larger ships, which by 1300 AD could each carry 140 tons below deck.[12] Byzantium came to depend on this fleet and most of her traffic to Europe was carried by it.

Venice's ships sailed for specific destinations at set months of the year in fleets, pooling expenses and cargo risks. These fixed sailing dates created identifiable seasonal cycles in European commerce and finance.

## VENICE'S RELIGIOUS HIERARCHY

The Venetian Doge was a political official paid and titled by Byzantium, but he was elected locally. In religious matters, however, the Basileus tried to subject Venice to the Patriarch of Aquila. She needed a strong argument to keep control of her own sacred establishment, and found it in the mummified corpse of St. Mark, which was entombed at Alexandria. Legend has it that two Venetian merchants stole the corpse while on a trading trip in 892 AD and smuggled it home in a pork barrel.

Pilgrims soon flocked to the enshrined corpse of St. Mark, and Byzantium recognized Venice as a religious center. Inspired by this success, she would continue to collect saintly bones throughout her history, eventually acquiring St. Stephen, St.Theadore, St. Donatius, St. Isidore and even St. Nicholas (Santa Claus).[13]

## THE HESITANT CRUSADER

The army of the First Crusade was raised in Europe in 1095 and launched from Constantinople to retrieve Jerusalem from the Moslems (discussed in Chapter 5). Venice had stayed out of it, trying to maintain good relations with her trading partners in Alexandria. However, she was surprised by the Crusade's success and joined it late, believing that a victorious crusade would establish an overland route to the East which would nullify her route through the Egyptian canal.

## THE ATTACK ON CONSTANTINOPLE

During the crusades Venice abandoned the Alexandrian connection and traded with the East by the overland Palmyra route through Antioch and Tyre. However, this route could not be maintained and her eastern trade was limited to "the profits of a factory which they were permitted to conduct at Constantinople, and unless this precarious footing was soon bettered, there was grave danger that the trade would be lost to them altogether," wrote Del Mar.[14] This trade was so important to Venice that of her 60,000 population about 20,000 were in Byzantium.

In 1204, aware that Byzantium was negotiating with the Genovese to replace them, Venice joined the conspiracy to divert the Fourth Crusade into an attack on Constantinople. Her fleet was essential for this. She received 85,000 silver marks in advance, plus half of the spoil and half of the conquered territories. Nothing was mentioned about the secretive ratio trade, which was worth more than all the rest. In the spring of 1203 twenty thousand "crusaders" set sail for Constantinople in Venetian galleys. The partially blind Doge Enrico Dandolo, at age 95, led the attack which toppled Byzantium in early 1204.

Venice's share of the loot was 900,000 marks of silver (1 mark = about 8 ounces) and substantial new territories, not to mention the heads

*4d.* **The secret chancellery room at the Doge's palace in Venice. It was here that details of the conspiracy of elements from Cluny, the Cistercian order, and some aristocrats, to turn the Fourth Crusade against Constantinople, were divulged to Doge Enrico Dandolo. He obtained great concessions for Venice's naval support.**

of St. Abdon and St. Sennon, the arm bones of St. Sergius and the feet of St. George.

## VENICE'S MONEY SYSTEMS

Venice had been content to use the coinage of her main trading partners - that of Byzantium, to which she was subject and paid tribute; also the Moslem gold and silver coinage and Frankish silver coinage. Her traders calculated profit and loss on a per venture basis and kept these international accounts denominated in gold.

She minted her first coinage in 1172-78, a few years after major silver mines were opened at Frieburg in Germany. Doge Zianni minted silver Denarii containing 1/10 of a gram of silver, at a value of 240 Denari to the Roman Pound. He also minted a copper coin, the Mezzodenaro, which contained 5% silver. Silver was used for all state transactions and for local business. Venice could not mint gold - that was the Basileus's prerogative.

## THE SILVER GROSSO

Venice used her share of the Byzantine loot to mint the silver Grosso. It had 2.141 grams of silver, .965 fine, and soon became the most successful large silver coin in Europe.

She coined the Grosso at 2% less weight than an equivalent value of Denarii in circulation, to take into account the wear and tear on the already circulating Denarii. She did this because she wanted the coins to continue circulating side by side, and therefore didn't put more silver value than legal value into the Grosso, than the Denari had.

Two remarkable facts are evident from this:

First, there was a high degree of sophistication regarding one of the dangers to which precious metals coinage was susceptible: the culling, or separating, of coins of higher metal content from legally equal, but lighter weight coins. This precise awareness of "Gresham's" law came 300 years before Gresham (see Chapter 12).

Secondly, it demonstrates that Venice did not have a problem with coin clipping, if their Denari were only 2% underweight. In England of the same period silver coins were 50% underweight from clipping! England's money system was destroyed by clipping on more than one occasion. Historical examples of Gresham's law in action were usually helped along by merchants illegally clipping the coinage.

## VENICE'S MINT POLICY

Venice's mint was owned by the Republic. The 1278 mint law stated its regulations in 134 paragraphs. Minting fees were reasonable, about 0.8%, and all profits belonged to the Republic. It was managed by salaried officials for short terms with no immediate re-appointment allowed. Engravers were paid even more than the mint master, and their movements and whereabouts were carefully controlled. Venice conferred mint powers on committees rather than individuals, and there were monetary rewards for workers reporting irregularities.

Once the Empire fell, Venice's money system had to stand on its own, and she adopted strong measures to protect it from foreign manipulation. After 1250 any gold or silver bullion coming into Venice had to be registered with the state before it could be sold. Only Venetians could export bullion or coin:[15]

"From its arrival in Venice as the funds of northern merchants to its departure in the galleys as newly minted Ducats and Grossi, precious metal was carefully regulated by the Venetian State," wrote Stahl.[16]

## THE LOOSE RATIO

Byzantium's power had been strong enough to maintain an official gold/silver ratio at 12 to 1 for many centuries. This does not mean that it was so in all transactions everywhere in the Empire. But when she fell the ratio began to fluctuate rapidly. According to Lane, between 1250 and 1360 the ratio in Venice went from 8.5 to 1, up to 14.2 to 1 and then back down to 9.6 to 1.[17] Venice rarely attempted to maintain a fixed ratio by law. Their trading mentality kept them from falling into that trap. They generally kept the ratio "loose," allowing merchants the opportunity to make a profit on it but not at the Republic's expense.

Byzantium could counter any attacks on its declared ratio through customs enforcement, internal legal measures, and mainly by sacred prerogative. As to the erosion of the ratio by "free market forces," that could take centuries against a monolith like Rome/Byzantium with its deep reserves, and that kind of time scale doesn't attract speculators.

However, a limited city Republic like Venice, Genoa, or Florence was another matter. Florence made the mistake of trying to establish a legal ratio in 1279 at about 10 to 1. But the market value of gold first fell, meaning the silver Florins could be melted down and sold at a profit, as their bullion market value was higher than their official value as coinage. Then gold rose, making the gold coins vulnerable to the melting pot as its market value was above its coinage value. Then gold fell again, etc. Florence quickly abandoned the fixed ratio and established two separate standards - one gold and one silver, with a fluctuating relationship between them.

## VENICE'S GOLD COINAGE

In 1284 Venice minted her first gold coin, the Ducat, under Doge Giovani Dandolo. It weighed 56 grains and was meant to continue the tradition of the Bezant. Venice at first repeated Florence's error and attempted to institute a fixed legal ratio of 10.7 to 1 (1 gold ducat to 40 silver soldi a grossi), but she had to abandon it in 1296.

*As seen in the loose ratio policy it is foolish for a relatively weak legal power to present a stationary target when doing monetary battle with large commercial forces. Fighting in this case meant not presenting an easy-to-hit target. Bi-metallic standards of individual states have almost always been vulnerable to the speculative attacks of combined commercial interests.*

Venice developed at least four separate moneys of account: two based on gold and two based on silver. In 1400 she simplified them down to two, one gold and one silver. "With so many different moneys of account linked some to one coin, some to another, it is often difficult for a modern reader. The Venetians who used those moneys of account every day also had difficulties," wrote Lane.[18]

## EXCLUSION OF THE JEWS

Venice and other Italian Republics had a firm policy of excluding Jews. Lane mentions that Venice first came into contact with Jewish moneylenders about 1250 AD. Venice didn't allow Jews to live there on a permanent basis until the 16th century. According to Cecil Roth, from 1394 Jews temporarily in Venice were required to wear yellow hats.[19]

Regarding usury, the Venetians assumed a man had a right to a return from a commercial contract only if there was a combined risk and if the return was uncertain. This prevailing attitude against usury encouraged the flow of capital into trade rather than pawn shop lending. This was consistent with the Moslem viewpoint and anticipated that of the Christian Scholastics.

## MONETARY DISHONESTY STRIKES AT VENICE

A merchant or trader's mentality existed for centuries in Venice without any moves to corrupt the money system. But within a few years of the attempted hereditary definition of the aristocracy, and other influences, monetary corruption made its first major appearance in the manipulation of the legal tender laws.

The Venetian Republics' public-spirited cooperation had operated in monetary matters until the Tiepolo Querini Conspiracy of 1292-1302, which attempted to constitutionally define Venice's leadership in a hereditary manner.

Some monetary methods of plunder appeared soon afterward. In a two- step process the mint masters first concentrated on minting silver coinage in the money of account called the Piccoli, coining as many as possible from 1317-18; at least 200,000 per month, according to Lane.[20]

Then in 1321, with the control of Venice's mint in the hands of the Quarantia body, the government agencies and customs were instructed not to accept this Piccoli money of account in any payments, and to accept only the silver Grossi money of account! Gold and silver bullion was not accepted either, except as a deposit to guarantee that the Grossi would be paid.

This action in effect drastically reduced the money supply of Venice and raised the demand and value for the Grossi, which had to be found to make the necessary payments. This certainly worked to the benefit of those holding the Grossi or those merchants to whom it was owed. It was a reduction of the money supply probably engineered by those who benefited by the provision.

At about this time some Venetian women began to overly indulge in conspicuous consumption, perhaps to assert their social position. This quickly led to the establishment of anti-luxury laws prohibiting such activities.

Venice's money system again came under internal attack in 1327 when bankers, aware of the upcoming resumption of the trade link with Egypt and the large amounts of gold expected from it, wanted the right to pay off their silver depositors in the expected cheap gold. In 1328 they forced through a law fixing the ratio of gold to silver at 14.2 to 1 (1 Ducat to 24 Grossi), the highest level it had been in over 50 years, so that paying off their silver debts would be easier.

But they miscalculated. Overvaluing the price of gold that way forced silver out of circulation, in a massive outflow to Constantinople and by 1335 the Grosso ceased to be a common means of payment in Venice. The trade with India didn't get started until 1345 after which the inflow of gold forced the ratio down to 9 to 1. In 1343 Venice elected Andrea Dandolo as Doge to remedy her monetary problems, as his ancestors Enrico and Giovanni had been responsible for some of her earlier monetary successes.

## VENICE UPSET EUROPE'S MONETARY RECOVERY

From the mid-1300s gold was generally falling in relation to silver because of this re-opening of Venice's Egyptian trading relations in 1345, which had been closed down with the Crusades. Frederick Lane called it "a turning point" in European monetary history The timing was probably related to the suppression of the Knights Templar in 1307 and the breakup of the Templar's extensive trading links with the Levant, which had been organized during the Crusades.

Venice's position would again be dominant in Europe, because of her ability to once more tap into the Eastern gold-silver ratio and the spice trade. However, while the earlier trade had brought gold to Europe in exchange largely for slaves and other commodities, at this point Venice's intention was to send mainly silver to the East in exchange for gold and spices. She would be doing what the Byzantine Roman Empire had done for centuries: destroying Europe's silver money system by literally exporting it to India.

Venice applied to the Egyptian government for a reduction on the tariff to ship silver there, "because that is most important for our situation and we are more interested in a reduction of the tariff on silver than on any other merchandise."[21] The tariff on silver was reduced from 10% to 2%. "Silver coins did not gain wide circulation in Egypt. Most of the silver sent there was...sent eastward to India," wrote Lane. Shortly after this trade started there was a flood of gold into Italy and by 1360-70 the ratio fell to 9.6 to 1 in Venice and Florence.

According to Spufford it is from this point that gold first began to appear in substantial quantities in northern Europe.

Venice exported vast amounts of silver to Asia: 13,200,000 silver Grossi per year, about 20,000 tons. Europe was soon denuded of its silver money supply. By the late 1300s the silver famine reached crisis proportions:

"...more severe than anything that had taken place since the 7th century," wrote Spufford.[22]

The crisis peaked from 1457 to 1464. Most mints in Europe were closed. In the north, only London's mint remained open. The crisis prompted Naples to mint a pure copper coin, the "Cavalli," in 1472. Venice herself began minting the copper "Bagattini" coins in 1473. These developments were the right direction for Europe. Then some new silver mines were opened, alleviating the coinage shortage, and with the discovery of America, vast amounts of looted silver and gold began entering Europe from America. This inflow of plunder had the unfortunate effect of retarding the development of sound monetary thought.

Then from 1503 Venice, *whose leadership could not have been ignorant of the severe monetary problems they were causing in Europe*, was knocked out of its dominant position in the Eastern trade by Portugal's opening of the Cape Route around Africa.

VENICE CAUTIOUSLY INTRODUCED NOMISMA

During the Siege of Tyre in 1122 Doge Michieli ran out of money to pay his soldiers so he gave them stamped leather money, which was redeemed when the fleet returned to Venice. This temporary leather money was not institutionalized; its general circulation was never intended, and it was quickly redeemed.

The experience of how leather could function as money was not lost on these expert traders, but Venice didn't use a nominal money until 1353 when Andrea Dandolo began minting the Tornesello for circulation in Venice's foreign territories, comprising modern day Greece, Bulgaria, Romania and the former Yugoslavia.

The Tornesellos were a mixture of copper and silver, legally valued at twice their silver metal content. Minting costs alone took about 25% of the Tornesello's value. Thus Venice did not stray very far from metal content value when you consider that Rome's numeraries were at least four times their metal value.

The Tornesello was put into circulation by paying for Government expenditure: for fortifications, outfitting fleets, paying crews, etc. It functioned reasonably well:

"As long as the Torneselli were minted only in amounts equal to the need for them, their scarcity value enabled them to circulate at their legal tender value even though it was almost twice their silver value."

However, after 1390:

"Having been emitted in large quantities (about 4 1/2 million a year) the Torneselli ceased to have the scarcity and utility value for some decades," wrote Lane.[23] Venetian territorial officials complained of being paid in them and a 20% discount was applied to them for a period.

Though the Tornesello didn't circulate in Venice itself, in 1379 She began minting a new "overvalued" silver Grosso coin. It was nearly identical with the old silver Grosso, *except that it had a star on it and it was legally valued at twice the old Grosso.*

The Starred Grossi were minted in large numbers for decades and were a large part of the minting when Doge Tommaso Mocenigo in 1423 delivered his famous "Death bed oration" extolling the prosperity and power of Venice, praising her industrial and commercial achievements.[24]

The Venetians thus obtained only partial benefits of a fiat money system. Perhaps they didn't think they had the power to gain acceptance of a four or more times "overvalued" coin, which would have been enough to gain major advantages for their money system and their society.

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**Venetian Tournesello**
(16.7 mm; .579 grams)

*4e.* **Venice was very timid with its fiat money issues. The Tournesello (above) was worth only 25% more than its commodity content value and manufacturing cost. But the presence of the small star on the silver Grosso (below, right, arrow) made its legal value double the normal Grosso.**

**Venice's Starred Grosso**
(23 mm; 2.279 grams)

From about the mid-1400s, coining machines came into use in Venice. Whereas previously a workman could manufacture 40 to 50 coins a day, it was now possible to produce thousands.

THE IMPRESTIDI - GOVERNMENT FINANCE IN VENICE

Banking was discouraged or suppressed under the Basileus. Coinciding with the fall of Byzantium, banking arose first in Catalonian Spain and Genoa around 1200 AD.

Venetian banking evolved in order to finance the government after her participation in the first three crusades had drained the treasury. During one emergency, Doge Michieli borrowed from several rich merchants and paid it back.

In 1173 the treasury was empty again and Doge Ziani instituted a forced loan of 1% of the total property of each household. These loans were called "Imprestidi" and paid interest of 4%. No certificates were issued for these bonds but they were recorded and transferable at the Imprestedi office.

The Camera del' Imprestidi, often confused with the later Bank of Venice, was not a bank - no deposits or loans could be made. To transfer the credits required both parties to be present at the office. After 1262 these loans were no longer considered temporary but were consolidated into the "Monte Vecchio" bonds. Thereafter new levies, the "Monte Neuvo" bonds generally exceeded repayments.

The amount each citizen had to loan was based on an adjusted estimate of his wealth - the "estimo," and the percentage of the estimo forced as a loan ranged from 3.87% in 1287-91, up to 62% in 1380-81. Lane estimated Venice's Imprestedi debt, in Lire a Grossi, at:[25]

| | | | |
|---|---|---|---|
| 1255: | 15,000 | 1353: | 3.1 million |
| 1393: | 12.5 million | 1402: | 9.5 million |
| 1413: | 23 million | 1438: | 16.5 million |
| 1521: | 21.5 million | 1620 | zero |

*Since these Imprestedi were transferable on the books, they became a means of payment between merchants and therefore were a very limited form of money, even though they were never intended as such and had no legal tender status.* This is one of the first instances in the West where government debt was monetized, although unintentionally.

The money supply was thereby potentially increased by the amount of the Imprestedi loans in existence.

The Venetian's initial lack of a state bank was by choice. As early as the 1300s proposals to set up a Deposit bank were rejected. There were moves to allow using checks to transfer Imprestidi bonds, which would have made them a nearer money form, but again Venice choose to forego this convenience. Finally in 1587 the Camera del' Imprestidi was converted into a Deposit, or "Giro," bank. This was among the earliest state Deposit Banks in Europe and was soon followed by the Bank Of Amsterdam in 1609.

A Giro bank, in theory, accepts deposits and allows depositors to transfer amounts from their accounts to other accounts in the same bank. Giro banks were not supposed to make loans and were considered very secure. But Venice's bank was bankrupt by 1600, reflecting the turmoil she was in from the early 1500s.

Substituting the Imprestidi loans to the Government in place of taxation, led to uncontrollable monetary consequences, when the state debt was reduced to zero. Creating the Imprestedi loans had increased the money supply, but eliminating them removed that supply.

There had been private local banks in Venice from the 13th century, but around 1500 all except the very small banks went bankrupt. One reason was because the requirement to pay for the Imprestidi had forced wealthy Venetians to withdraw large sums from the banks, collapsing them. Furthermore, Venice's own silver trading with the East had caused money and banking to deteriorate throughout Europe in the mid-1400s, so that most states were arrayed against her.

## THE DECLINE OF VENICE

From the start of the 1500s Venice was declining and Portugal/Antwerp were rising. The Cape Route to India was opened in 1503 when the first Portuguese shipments arrived home. *This ended Venetian dominance of the East/West trade and of the ratio mechanism.* In the early years the Portuguese fleet brought in 2.3 million pounds of spices annually, mostly pepper. This came out of Venice's Alexandria trade which initially dropped by 75%.

The year 1500 also marks the end of the century of warfare against bank credit, carried on in Northern Europe by the Hanseatic League and the Dukes of Burgundy, described in Chapter six. This battle caused large scale bank closures in northern Europe and the effects could easily have been felt in Venice.

After 1500, Venice's fleet also went into relative decline. Her shipbuilding specialty had been the large expensive flat bottomed galleys, about 140 feet long and 24 feet wide. But revolutionary improvements in sails and especially the rigging of round bottomed boats made them faster and easier to handle. The invention of cannon removed the security advantage of the large galleys. By 1606, affected by a severe shortage of oak, one-half of Venice's fleet was built in foreign shipyards and maritime supremacy shifted to Holland.

## LESSONS OF CHARLEMAGNE AND VENICE

Charlemagne's experience shows, in part, the futility of basing a money system on hard-to-get commodities, or on exceptional personalities. For even with slave labor, the costs to society of creating and maintaining the metallic money supply took up too great a part of the eventual benefit the society derived from that money system.

Then there was the fact that the commodity aspect of silver coinage caused it to continually drain to the East. Venice's ability to use gold and silver for money resulted in part from turning the silver drain to her advantage. That is, during several periods, her merchants were the ones doing the "draining." But this was at the expense or inconvenience of other European nations, and when they eventually had the chance to turn on Venice, they did.

Perhaps the greater loss to Venice was that she remained timid in her creations of fiat money, and did not really develop an advanced system of nomisma.Thus when state finance later became a problem, she could not employ advanced monetary actions to help in solving them. She never fully realized the potential for monetary development, already so evident in the sophistication of her mint regulations.

On the positive side, the trading profits of Venice and the other Italian city republics raised the level of civilization in northern Italy to the point that renaissance became possible.

## *Notes to Chapter 4*

[1] Peter Spufford's phrase describing monetary developments in Charlemagne's time, in his 1988 work *Money and its Use in Medieval Europe,* Cambridge Univ. Press, 1988, 1993. Spufford assembled the first comprehensive picture of metal and coin flows in the middle ages, from merchants notebooks, literary references and coin hoards.

[2] Alexander Del Mar, *History of Monetary Systems,* (repr., A.M. Kelley, 1967), pp.116-7.

[3] Spufford, cited above, Ch. 2.

[4] *World History of the Jewish People - The Dark Ages (711-1096)*, (Jerusalem: Jewish History Publications, Reutgers Univ. Press, 19660, section by S. Schwarzfuchs, pp. 130-143.

[5] Del Mar, *Middle Ages Revisited*, (New York: Cambridge Encyl.Co., 1900), p. 204

[6] Del Mar, *Middle Ages Revisited*, cited above, Ch. 9.

[7] Eginhard, IV, 16, on Treaty of Seltz, as quoted by Del Mar, Middle Ages Revisited, cited above, pp.192-202.

[8] Del Mar, *Middle Ages Revisited*, cited above, Ch. 10.

[9] Spufford, cited above, pp.50-51.

[10] Jacob Burckhardt, *The Civilization of the Renaissance in Italy*, (London: Phaedon, 1944), p.35.

[11] Phillip Longworth, *Venice - The Rise and Fall*, (London: Constable, 1974), p. 84.

[12] Frederick C. Lane, *Venetian Ships and Shipbuilding*, (Baltimore: John Hopkins Univ. Press, 1934).

[13] Longworth, cited above, pp. 15-20.

[14] Del Mar, *Middle Ages Revisited*, pp.245-50.

[15] Frederic C. Lane, *Money And Banking In Medieval Venice,* (Baltimore: John Hopkins Univ. Press, 1985).

[16] N.J. Mayhew & Peter Spufford, editors, *Later Medieval Mints*, (BAR International Series, 1985), Chapter on Venice's mint in the 13th century by Alan M. Stahl, p. 104.

[17] Lane, *Money & Banking...*, cited above, pp. 360-368.

[18] Lane, *Money & Banking...*, cited above, p. 354.

[19] Prof. Cecil Roth, *Venice*, (Jewish Publication Society of America, 1930).

[20] Lane, *Money & Banking...*, cited above, pp. 315-340.

[21] Lane, *Money & Banking...*, cited above, p. 370.

[22] Spufford, cited above, p. 340.

[23] Lane, *Money & Banking...*, cited above, p. 431.

[24] Lane, *Money & Banking...*, cited above, p.174.

[25] Frederick C. Lane, *Venice In History*, (Baltimore: John Hopkins Univ. Press, 1966), pp.87-100.

# CHAPTER 5

# THE CRUSADES END BYZANTIUM'S MONETARY DOMINATION

**"Then for the first time appeared this epidemic fury, in order that there might be no possible scourge which had not afflicted the Human race."**
**Voltaire**

The Crusades are usually viewed as an emotional orgy of bloodletting and in part, they were. But they became much more and served as the crucial pivot between the medieval period and the Renaissance. Monetary re-birth in Europe would have taken much longer without them. Social and governmental organization were also accelerated.

In 1095 Pope Urban II passionately called for an expedition to take Jerusalem from the Moslems. "It is the will of God" chanted the multitude, and every village in Europe was affected by this greatest undertaking of any kind since the time of Imperial Rome. Millions went on the Crusades; many more millions of pilgrims followed them.

## GEOPOLITICAL MOTIVATION FOR THE CRUSADES

By focusing on popular fervor, Voltaire's statement overlooks the major geopolitical motives for the Crusades which were becoming ripe.

**Popular Fervor**

The fervor was real but such a great Movement could not originate from popular desires in a world where the populace had so little to do with its own governance; and after all - Moslems had ruled Palestine for over 400 years. And while Egyptian Ruler Al Hakim burned down Jerusalem's Church of The Holy Sepulcher in 1009, his successor had rebuilt it by 1048.

**Turkish Pressure**

The Emperor asked for help retrieving the holy lands to remove the military pressure the Seljuk Turks placed on Byzantium, which were harming its Moslem relations.

**Ending The Jewish Trading Dominance**

By this time the larger part of the Jewish population had moved from Asia into Europe. The occupation of Spain by Islam had brought a wave of Jewish migration with it. Until the first half of the 8th century, the bulk of the Jewish people lived in western Asia under Moslem rule, but by the 11th century most of the Jews had transferred from Asia to Europe. Pirenne notes that much of the East-West trade was in their hands, through Spain.

**Growing Princely Ambitions**

The economic and military position of the Western princes would be improved if they could re-take the Holy Land and establish more direct trading relations of their own. The massacre of Jews in Europe by Crusaders as they left on the first Crusade may indicate that constricting the Jews was a motivation at more than one level.

**Papal Ambitions**

Part of Rome's motivation was defensive! The Saracen Moslems had reached the Pope's doorstep in 846 AD when they besieged the Castello St. Angelo, the Vatican's battlement on the Tiber River in Rome, less than a thousand yards from St. Peter's Basilica.

But the Papacy also wanted to end the dominance of the Basileus which was apparently still recognized as the supreme religious authority by most of the West's leadership. Retrieving Jerusalem with Western forces would strengthen the Pope's position, perhaps enough to dislodge the Byzantine establishment. *Or, if a large Western force could be moved near Constantinople without raising alarm over the many years it would take to assemble, that force could ultimately be used to topple the Emperor.*

All of these high level objectives and more were in fact achieved during the Crusades. The Basileus succeeded in dislodging the Moslems from Jerusalem for almost 100 years and forever from Spain.[1] The Mediterranean was re-opened to general Christian traffic. Trade routes

*5a.* **In 1095 at Auvergne, Pope Urban II called for a Crusade to take Jerusalem. He started a movement that had been brewing for a century and would reach fruition a century later with the toppling of Constantinople in 1204, ending Byzantium's hold over Europe's money systems.**

and lasting trading links were set up, especially by the Knights Templar organization. The significance of the Jews in international trade was "drastically reduced" after the Crusades broke the Moslem/Christian barrier, breaking the trading links of the Jews in Europe with the Radanites of Egypt, who held long standing trade relations in India.[2]

Yet to discount the religious "idealism" and emotional attraction of the Crusades would be to miss the great popular appeal of going forth together, acting in common for the glory of God. The Pope temporarily turned the sometimes frustrating "Thou Shalt Not Kill" into the often more satisfying "Thou Shall kill the bad guys."

## THE CRUSADERS MASSACRED THE JEWS

In the U.S. a growing attention has been devoted to the crusaders mistreatment of the Jews, and it is best to recount these events and their background from Jewish and philo-Semitic sources, such as James Parke's careful study *The Jew in the Medieval Community,*[3] and Professor Cecil Roth's work in *World History of the Jewish People - The Dark Ages, 711 - 1096*[4], and others.

A primary activity that attracted the Jews into Europe from the 8th to the 11th century was to engage in the European slave trade. Parkes notes that from the 5th to the 8th century Jewish traders "continued and perhaps developed the trade in slaves," but this activity "only employed a relatively small proportion of the Jewish population."[5]

The burgeoning slave trade of the 8th to the 11th century, however, spurred by the Moslems occupation of Spain and their insatiable appetite for slaves, was on a much larger scale, and:

"It is possible that the slave trade through north eastern Europe to the slave countries were for practical purposes Jewish monopolies," wrote Parkes.[6]

Charlemagne, who had both tolerated and benefited from this slave trade, had insisted that either a bishop or count be present at slave sales. The slave route was from Mainz to Verdun; through the Soane and Rhône Valley to Lyon, Arles and Narbonne; finally to the Mediterranean port of Barcelona, where they were sent east by ship.[7] It was along parts of this route that accusations arose that children were being kidnapped and included in the slave caravans.

Professor Cecil Roth notes how in the documents of this period the Jewish slave trade occupies a particularly prominent place because its scale was so vast, and because it also presented religious problems. Roth was particularly concerned that the slave traders violated Jewish law, which forbade the castration of whole groups of people. The Jews castrated those captured as slaves, at their holding center in Verdun, before delivering them to the Moslems in Spain.[8]

Since there were not yet nation states developed in most of Europe there was little or no organized opposition to capturing slaves, especially from the "slav" areas and some of the "Wendt" areas. One of the few organized groups standing in the way was the Catholic Church, but it objected mainly to Jewish traders taking Christians as slaves.

When today's Libertarians talk about doing away with national governments, they would do well to first prepare some defenses from any potential modern day equivalents of such slave trading, which in today's world would likely originate in the private corporate sector.

**The Assembling crusaders attacked the Jews**

Many poor Crusaders had begun to gather in the spring of 1096 AD for the long march to the Holy Land and assembled before their leaders were ready:

"It was these bands who were responsible for all the massacres of the Jews," wrote Parkes.[9]

The attacks were said to be religiously motivated in that anyone who accepted baptism was not harmed - for example, all of the Jews of Trier. However, many massacres occurred elsewhere: in the Church at Rouen; at Speyer 800 Jews killed each other to avoid baptism; at Mainz 1014 Jews similarly died together; and massacres occurred at Altenahr, Xanten, Mors, Kerpen, Gelden and Cologne. Parkes stressed that:

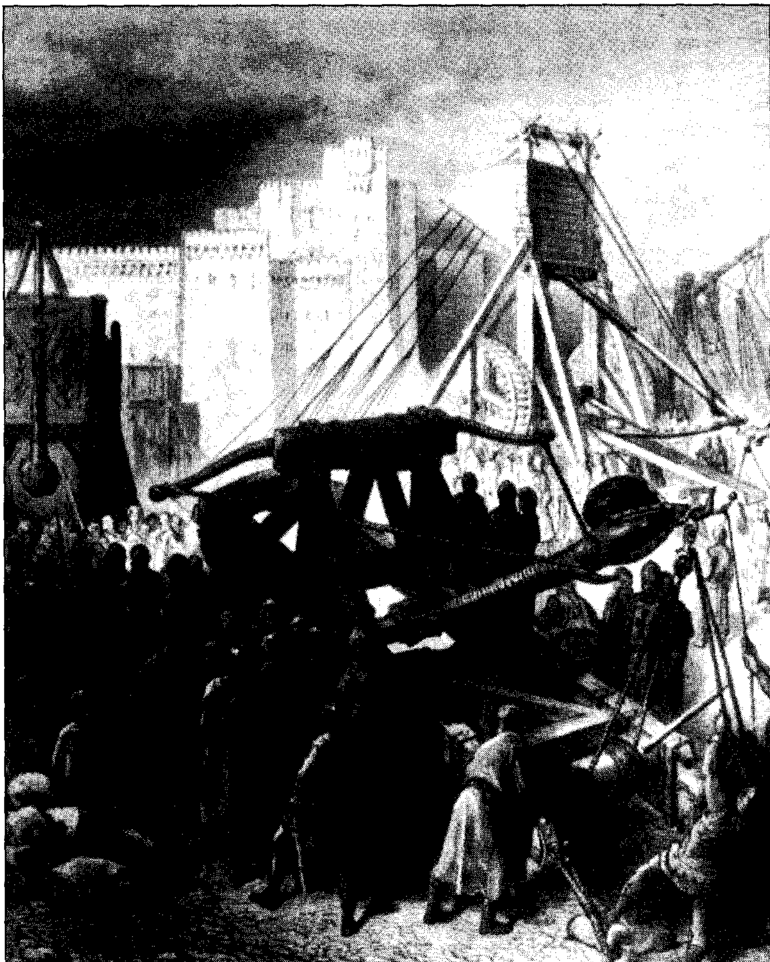
"Unless the reader can seize some of the horror of those fatal weeks it is not possible to understand the subsequent history of the Middle Ages, or the bitterness of the hatred of the Jews for Christianity and for those Jews who accepted it."[10]

THE FIRST MARCH

When the Crusaders finally reached Constantinople they were awestruck by the sight of the great walled city. Nothing like it existed in the West. Even today its great walls are impressive. The various leaders took oaths of loyalty to the Emperor and agreed to give him all conquered territories, still more evidence of the Emperor's continued supremacy over the West.

The Army went on to Jerusalem, remaining orderly in spite of poorly planned logistics and inadequate equipment. There was no fodder for the animals. Sheep, dogs, and even pigs were used as pack animals. Desertions were heavy. The Emperor had been advancing behind them to take possession of his new lands, but heard of their problems and turned back home to Constantinople.

Somehow, on July 15, 1099, after the chance arrival of a group of Genovese engineers, who built moveable towers, they took Jerusalem!



*5b.* **Dore's presentation of the first Crusade's Siege of Jerusalem. Though logistics were poorly organized, they managed to take the city; but then engaged in a terrifying, unnecessary blood-bath.**

An ecclesiastical Kingdom was set up there with Godfroi de Bouillon installed as king. They then took one city after another, perpetrating many horrors in the name of Christianity.

"On more than one occasion the inhabitants were slaughtered after they received safe conduct to leave the city, and their bodies were burned or cut open to secure the gold which they were supposed to have swallowed," wrote Munro.[11]

NEW FOUND RICHES

"The Crusades lands were much richer in natural products than the west of Europe and in addition had been for many centuries the entrepot for wares which were luxuries or unknown in the West. The Crusaders found a much higher civilization than any to which they were accustomed," wrote Munro (p 178), who noted that the Crusaders prospered in Palestine: "Those who had a few coins, here possess countless Bezants." (p 82) The crusaders did not allow the Jews to own land in the area and there were only a few thousand Jews in all the Christian territories in the Levant. Certain monetary accommodations were necessary for commercial activity with the Moslems:

"...the Christians had to adopt the weights and measures in use in the country and needed a form of money which would be acceptable to the oriental merchants. While Greek and Western coins were used among the crusaders, a new coin the Saracenate (or Bezant or Dinar) of Tyre was struck for use in commerce. This was a gold coin imitating closely the standard Bezant, coined by Muslin's with Arabic legends, usually a text from the Koran. It continued to be used by the crusaders till the visit of Saint Louis to the Holy Land in the middle of the 13th century. Then Pope Innocent IV forbade such impiety...texts from the Koran were replaced by Christian inscriptions but these were still written in Arabic in order not to prevent the circulation of the coins among Muslin's," wrote Munro. (p 122-3)

CONTRAST BETWEEN CHRISTIAN AND
MOSLEM LEADERS

Pope Urban II had presented the Moslems most negatively: "The Turk never ventures upon open close fight...and as he has poisoned arrows, venom not valor, inflicts death on the man he strikes. Whatever he effects then I attribute to fortune, not courage." (p.110)

But the Knights soon learned that "No one could find more powerful or braver or more skillful warriors than they." The Saracens also developed an admiration for the Franks and Nereddin called the Franks, "The bravest of mortals." (p 111)

The Seljuk wave of the immigrating Mongol hordes into the holy lands was a big factor in causing the Crusades. Within one lifetime they had destroyed most of Asia Minor, which was the reservoir of Byzantine landed wealth. Without the Crusades, Europe might also have fallen.

Their battle tactics were actually quite formidable. Thousands came on horseback in a thin extended flank, galloping at full speed. They shot their arrows and retired as a second and third wave arrived. Then they would all attack together with their thin curved bladed, very sharp swords.

Christian behavior contrasted poorly with that of the Moslems, especially Saladin the Great. A Kurd born at Takrit, Saladin had united the Moslems in order to fight the Crusaders. While besieging Jaffa, "Saladin heard that Richard the Lion Hearted was in town and had no horse on which to fight. Consequently Saladin sent Richard a splendid charger. During the siege of Acre, a Christian woman went to the Muslin camp begging for her baby, who had been carried off by the Saracens...Saladin was touched by her anguish; the tears stood in his eyes and he had the camp searched till the little girl was found." (p 173)

In 1183 he re-took Jerusalem, granting merciful terms:

"Saladin's guards kept such order that no Christian suffered any ill usage." The inhabitants were allowed to pay a ransom and leave with their belongings. "One of Saladin's Emirs ransomed a thousand Armenians; but the Christians took no thought for their poor fellow citizens and went away with all the treasure they could carry. The Patriarch

gold bezant; 2.85 grams; 19.7 mm.

*5c.* **The crusaders soon adopted the coining standards of the conquered areas. A Kingdom of Jerusalem bezant with Arabic legends, of Conrad and Conradin; 1243-1268 AD.**

carried off all his own wealth, the treasures of the Churches, and even the gold plate from the holy sepulcher...(while) thousands of the poor still remained un-ransomed. Then Saladin's brother begged the gift of a thousand, and set them free...then Saladin freed all the old people. When Saladin saw wives of captured Knights he promised to free them if he could find them, and he does."

"The contrast between this scene and the original capture of Jerusalem by the Crusades in 1099 offers some degree of the difference in character and degree of civilization between Saladin and the Christian leaders (who had slaughtered countless thousands of Moslems when they captured Jerusalem, burning their bodies in many huge pyramids)." (p 165-6)

When Richard The Lion Hearted had captured Acre, he slaughtered 2700 Moslems in cold blood because the ransom was late. "Nor was there any delay. The king's followers leapt forward to fulfill the command, thankful to the Divine Grace that permitted them to take such a vengeance." (p 168)

Saladin gave this advice to his son : "My son I commend thee to the most high God, the fountain of all goodness. Do his will, for that way lieth peace. Refrain from the shedding of blood; trust not to that; for blood that is spilt never slumbers. Seek to win the hearts of thy people and watch over their prosperity, for it is to secure their happiness that thou art appointed by God and by me." (p 171)

ENCOUNTERING THE INFIDEL

The Crusaders came into direct contact with the "infidel" and found him likable. "In Asia Minor many a pilgrim became a renegade to the Christian faith because of the good treatment received from Moslems... The common people said it was not necessary to capture cities for the Crusades because the Turks are better and more trustworthy than they who kept no faith with God or duty to neighbor," wrote Munro. (p 137) This kind of "heresy" sprang up all along the routes to the Holy Land.

ASSIMILATION

The Crusaders were always a small minority in the cities they conquered. After a while they took care to win the native's goodwill. Over time they inter-married with the "infidels," became orientalized, and didn't think much of home. The Kingship took on an oriental character - the King being approached on bent knee.

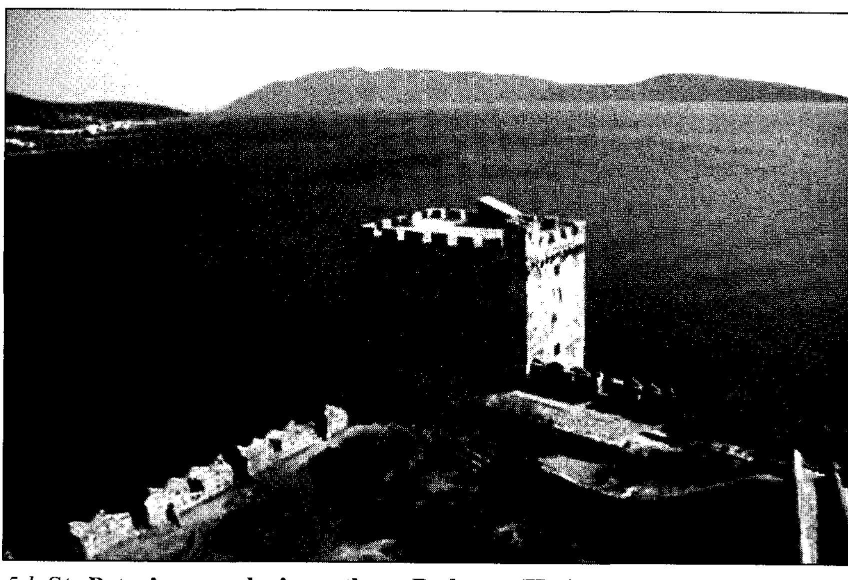
Both Christian crusaders and Moslem defenders eventually sought inter-faith alliances in battles against co-religionists. Commerce brought them together. Christian seaports were active trade centers. Christians sometimes borrowed money from Moslems and made hunting agreements. Christians soon came to boast of Moslem descent! (pp 110-17) Christian rulers often borrowed the superior Doctors of Moslem rulers.

*The Moslems had preserved elements of Greek learning and Roman law in a better form than the West.* An admiration of the arts, which they excelled in such as medicine, produced a desire to know something of their history and religion. Despite the Clergy's falsified reports on conditions in the Holy Land, the fame of Saladin The Great spread throughout the West and members of the educated classes desired to convert to Islam.

The Crusaders also came into closer contact with the origins of Judaism and Christianity and some found reasons to question their faith. These discoveries - of worldly powers and of problems with the faith - led to the beginnings of a new freedom of mind in some individuals, which was transmitted through the Knights Templar organization.

RISE OF THE KNIGHTS TEMPLAR

One important result of the 1st Crusade was the formation of the Knights Templar, originally called the Poor Knights Of The Temple Of



*5d.* **St. Peter's crusader's castle at Bodrum (Halicarnassus), Turkey, constructed in the early 1400s with stones taken from King Mausoleus nearby "Mausoleum," one of the "wonders" of the ancient world.**

Solomon. They were formed in 1114-18 ostensibly to protect pilgrims in the Holy Land. Fearless in battle, their flag was half black and half white, signifying death to their enemies and assistance to their friends.

Questions have arisen as to their humble origin and goal:

"The evidence suggests that this avowed purpose was a facade and that the Knights were engaged in a much more ambitious, grandiose geopolitical design," wrote Baigent and Leigh in their provocative book *The Temple and the Lodge.*[12] The Templars original membership simply appears too high powered and their growth too rapid. They were involved with the Cistercian order, which became a primary promoter of the 4th Crusade. Of the nine Knight members in 1128, were included: Fulk, the Comte D'Anjou (father of Geoffrey Plantagenet and grandfather of Henry II, King of England); Hughes, Comte De Champagne; and Hughes De Payens, who became the order's first Grand Master.

They received their charter from the Church in 1128 at the Council of Troyes and:

"within one year owned lands in France, England, Scotland, Spain and Portugal. Within a decade their possessions would extend to Italy, Austria, Germany, Hungary and Constantinople. In 1131 the King Of Aragon bequeathed to them a third of his domains. By 1150 the Temple had already begun to establish itself as the single most wealthy and powerful institution in Christendom, with the sole exception of the Papacy."[13]

This phenomenal growth is hard to explain by the concept of protecting pilgrims; even as there were other Knights groups - such as the Knights Hopitallier of St. John which evolved into the Red Cross; the Portuguese Knights of Christ and the Teutonic Knights.

# THE 4TH CRUSADE'S SNEAK ATTACK ON CONSTANTINOPLE

Byzantium had obstructed the 3rd Crusade and formed an alliance with Saladin, who held Jerusalem. Elements in the West, including the leadership of Cluny, France's greatest religious house, and especially members of the Cistercian Order, plotted Byzantium's downfall. The plan was to divert the 4th Crusade into an attack on Constantinople under the pretext of re-instating Emperor Isaac and his son Alexis, who had been deposed in a palace coup.[14]

John Godfrey's *The Unholy Crusade*[15] describes how European nobility had no enthusiasm for this venture until Pope Innocent III threatened to place a 2 ½ % income tax on them if they stayed home.[16] The great body of knights would not know of the secret plan and were maneuvered step by step into the treachery.

Venice's fleet would be crucial. A delegation negotiated with Doge Enrico Dandolo, who was able to exact heavy terms since their decision had been approved in advance. Dandolo must have been brought into the plot. He had a well known grudge, having been partially blinded by Byzantine officials, one of their favored torture methods.

The army assembled in June 1202 and set sail, wintering at Zara, where Dandalo, ignoring orders from the Pope, used the army to re-establish Venice's control over the city. He was quickly excommunicated. Most of the Knights expected passage to Egypt, but Venice had no intention of landing troops in Alexandria, which still contained elements of her trading links.

By the time the fleet reached Corfu in the early spring of 1203, suspicion and arguments over their true destination came into the open and promises had to be made to the reluctant knights. After rounding the Peleponnesus and Attica, the fleet anchored at the island of Euboea.[A] It then headed past Skiathos, took the long leg across the Aegean, past the desolate island of St. Efstratios; on to Lemnos Island; then to the mainland past Troy, to Galipoli, up the Dardanelles into the Sea of Marmara, then to Constantinople.[17]

THE "CITY OF THE WORLD'S DESIRE"

Constantinople had been founded as Byzantium in 657 BC by Dorian Greeks as a colony of Megara. She was the largest city of the Medieval world, at 7 miles long and 5 miles wide, with a population approaching one million. There was a plentiful water supply, public parks, street lighting and a good sewer system. But the leadership, the army, the navy, and the people had degenerated markedly.

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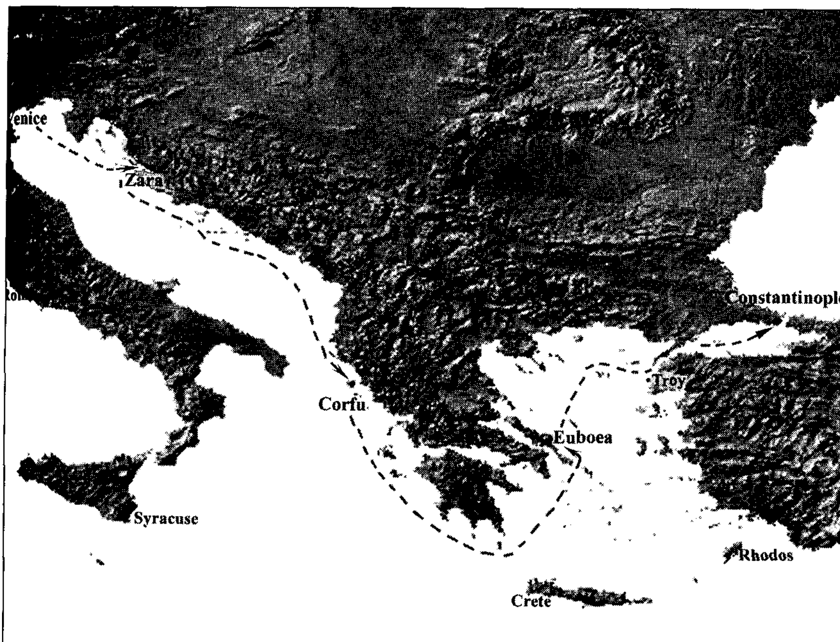
[A]In 1968 your author and three friends unknowingly retraced the route of the 4th Crusade, in a Zodiac rubber boat, starting from Vouliagmeni Beach, near Athens. At our first stop on the beaches of Euboea, the inhabitants seriously lacked the normal Greek hospitality. I thought an event from WW2 of 30 years earlier had perhaps affected them. But it may have sprung from a much earlier experience: more than one Crusade had stopped there, one bringing the plague. Perhaps the Euboians have learned to beware of strangers arriving unexpectedly by sea.

The appearance of the fleet in the harbor was enough to make the acting emperor flee by night and to have Emperor Isaac reinstated. However, when his son Alexi told him of the agreement he made to cede religious supremacy to Rome, he strenuously objected. When the Byzantines learned of the agreement in January 1204, they murdered both father and son and installed Canabus as Emperor.

On April 9th, the Crusaders attacked and defeated the Byzantines. From April 13-15 the Christian invaders were turned loose on the greatest Christian city in the world. They went wild, sacking the city. They preserved the foolish relics - the bones of the Saints; pieces of the Cross; milk from the Mother of God; and destroyed the great artworks: the bronze charioteers of the Hippodrome; the She Wolf suckling Romus and Romulus; Paris presenting the apple to Venus; an exquisite statue of Helen of Troy; statues commissioned by Augustus; all the great works taken to Constantinople over nine centuries from the ancient temples. All were melted down into bullion or coins.

It is this hatred of beauty, sometimes so clear in some Western elements, that discourages the good in the West and causes the




*5e.* **It took Venice a year and a half to transport the army of the 4th Crusade to Constantinople. Most of the knights were unaware of the expedition's real purpose, but once the great Christian city was looted, their objections faded.**

possibility, and in dark moments, even the desirability of the survival of what passes for the "Western tradition" to be called into question, but the thought soon passes. For the most part, we have little choice but to create and improve where we can. Yet we must find ways to expurgate the ignorance and evil that comprises too much of our "civilization," and devote real effort to that task.

Constantinople's great library of 120,000 volumes had already burned in 476 AD. In 1204, some churches and monestaries still had good collections, especially the renowned Studius Monastery. But thousands of manuscripts and parchments from many personal libraries were now burned and from that time on the works of many ancient authors disappeared altogether. It must be remembered that books in medieval times were extremely expensive. Cipolla estimated an average medical volume cost the equivalent of 3 months of normal living expenses and the average legal book cost about 16 months worth of living expenses.

On the positive side, some of the greatest works of Greek Philosophy, such as those of Aristotle, which had been non-existent in Europe, were saved from the flames of Constantinople and brought to the west.

Baldwin of Flanders was elected Emperor and Venice took control of the Patriarchy and Churches. The loot was gathered up and divided. All thoughts of Palestine disappeared. Dandolo, aged 95, died in Constantinople and was buried in St. Sophia church.

The Pope ratified these religious and political decisions. The schism between the Latin and Orthodox churches became irrevocable, and remains to this day. Michael 8$^{th}$ recovered Constantinople from the Latins in 1261. It fell to the Ottoman Turks in 1453.

MONETARY SIGNIFICANCE OF THE 4th CRUSADE

The fall of Constantinople in 1204 formally ended the Empire's monetary powers, which had held sway in Europe from the time of Julius Caesar. The monetary system of the Caesars was finished. This was one of the most significant monetary events in history.

To repeat, the "secret" dynamic behind this "sacred" monetary system was that the Basileus would be ready to exchange centrally minted gold Bezants for locally minted silver coinage at a 12 to 1 ratio, when it could exchange that same silver for up to twice as much gold bullion in India and points east.

When Byzantium fell, the control of money slipped from religious or sacred hands into secular hands. While the Lateran Council would soon (1211) declare the Papacy's supremacy over all earthly sovereigns, they couldn't make it stick, and Frederick 2$^{nd}$ assumed the sacred prerogative of the Basileus and minted gold coins of 82 grains at Naples in 1225. Research is needed on just how Frederick came to do this.

Local rulers all over Europe began minting gold coinage:

In 1225 Lyon issued a 54-grain coin. In 1250 France under Louis 9th did so at 63 grains. In 1252 the Republic of Florence issued the gold Florin at 56 grains. In 1257, England, under Henry III, issued gold coins of 43 grains. In 1284 the Venetian Republic issued gold Ducats at 56 grains. Finally in 1316 in Avignon, Pope John 22 minted the gold Sequin at 54 grains (see Chapter 3). *The Old World Order had fallen.*

## THE RETURN OF THE SPOILS

Vast amounts of spoil were brought back to Europe from Constantinople, more than the official figures, because the marauders cheated their fellow Christians and did not put all of their loot into the official pool, which totaled about 400,000 marks weight worth of silver. The Venetians are known to have stored much loot in their ships rather than pooling it. The Churches were looted of vast amounts of gold and silver. Forty barrels of gold were found beneath the altar of St. Sophia alone.[28]

"The plunder of Constantinople by the Venetians and other of the Crusaders probably transferred more metallic wealth to western Europe than all the commerce of the centuries that preceded it," wrote Jacobs.[18]

*The return of this metallic plunder to Europe gave a crucial monetary boost to European life and was probably the main factor in Europe finally reaching the magic threshold, the critical monetary mass where a truer, more advanced monetary systems could function. Nomisma could be re-introduced.*

## RENAISSANCE IN EUROPE

The hoarded coinage and bullion had been less than useless in Constantinople, where it required heavy storage expenses and served as a magnet attracting and inviting conquest. Its "intrinsic value" was really quite negative. In Europe it would be put to much better use: by Venice in her commercial activities; by the Princes in their realms; by the Church in helping to finance construction of the great cathedrals of Europe; by the individual crusaders and by the Knights Templar in their growing financial activities.

## THE KNIGHTS TEMPLAR FINANCIAL INNOVATIONS

The Knights Templar organization had been quick to learn monetary and financial arts while in the East. It was after their return from the first crusade with a knowledge of banking and credit techniques that banking began to appear in Europe:

"Historians generally ascribe the evolution and development of Western economic institutes to Jewish money lenders and to the great Italian merchant houses and Consortiums. In fact, however, the Jewish money lenders were minor compared to that of the Templars and the Templars not only pre-dated the Italian houses but established the machinery and procedures which those houses were later to emulate and adopt," wrote Baigent and Leigh. "In effect the modern origins of banking can be attributed to the Order of the Temple. At the peak of their power the Templars handled much if not most of the available capital in western Europe. They pioneered the concept of credit facilities as well as the allocation of credit for commercial development and expansion."[19]

Byzantium suppressed banking but the Templars were strong enough to engage in it anyway. After 1204, with the Basileus out of the way, the Templars had a more free hand to introduce and develop banking in Europe.

The Templars owned and ran the depository that held the French treasury in Paris. They collected taxes for the Crown and made loans to the French and English Crowns. Between 1260-66, Henry III pawned the British Crown Jewels with the Templars; Queen Eleanor personally brought them to the Templar's Paris Preceptory.

The Knights at times used methods similar to those of the Jews; they could be harsher than the Jews and sometimes charged higher interest rates. But since they were Christians, they were not perceived as aliens operating against the society. They had a very high reputation for accuracy and honesty and their association with retaking Jerusalem added to their image.

The popularity of the Templars became so great that:

"...scarce a will of importance was made without an article in it in the Templar's favor," wrote C.G. Addison in *The Knights Templar.*[20] This began to change after it became clear that there was no chance of recovering Jerusalem. Their enemies argued that they couldn't have lost Palestine if they had been good Christians.

Addison estimated the annual income of the Templars in Europe around 1300 AD at roughly 6,000,000 pounds sterling, from holdings of

9,000 manors or lordships; with about 1/3 of their receipts in gold. The Templars were generally above or outside of normal law. Their houses were sanctuaries; they were exempt from most taxation or dues and could not normally be sued.

## THE KNIGHTS TEMPLAR TAPPED INTO THE EAST'S GOLD/SILVER RATIO

Financial success on the order of that achieved by the Templars usually also has some esoteric activity at its base. We find that they skillfully tapped into the ancient dichotomy in the gold/silver ratio between east and west - using a mechanism similar to Byzantium's 900 year monetary game with the ratio discussed in Chapter 3.

The travels of pilgrims and others to the reclaimed holy lands meant a tremendous transfer of funds for their expenses. But the pilgrims would rarely carry the coinage with them and relied on the Templars' facilities to receive payment in Europe and then make payment to the pilgrims in the holy land. For example Louis VII, after receiving a loan of gold Bezants from the Templars in the holy land, wrote to his financial agent Sugar in Paris:

"They lent us, and borrowed in their own name a considerable sum. Kindly repay them without delay 2,000 marks of silver."[21]

So the Templars received payment from the westerners in Europe in silver and then credited them in Asia (Jerusalem) in gold, presumably at the western gold/silver ratio of 12 to 1. But the silver the Templars collected in Europe could be exchanged for twice as much gold in India where the ratio was usually around 7 to 1, potentially giving the Templars a huge profit on these money transfers.

## THE SUPPRESSION OF THE TEMPLARS

It seems they had grown too powerful, for on Friday 13, in October 1307, King Philip of France (Philip Le Bel) had the Templars arrested throughout the realm with secret, sealed orders to all departments, which were opened at the same time and acted upon immediately. There were an estimated 20,000 Templars in Europe at this time, 10 % of them being fighting Knights. They offered no resistance, were interrogated over a period of years and many were tortured and killed. This bloody episode illustrates an important monetary principle that financiers sometimes forget: *Ultimately in extreme conditions, political power is superior to the monetary power.*

It proved impossible to find a formula to bring them under Papal control and in 1312 the Pope, under Philip's influence, dissolved their charter and turned over their possessions to the Knights of St. John. Their leader, Jacques De Molay, a Burgundian, while being burned at the stake, called for Pope Clement VI and King Philip to join him within the year. They both died under suspicious circumstances within the year. The remaining Templars went underground.

Philip Le Bel also banished the Jews from France in 1306. As his name implies he was well liked by the people and France is said to have prospered under his reign.

DISAPPEARANCE OF THE TEMPLAR TREASURY

Just before the 1307 raid the Knights at the Paris preceptory's treasury had left with many pack horses. They embarked on the Templars' 18 ships and vanished completely with their vast treasure. Baigent and Leigh believe that they found refuge at Kilmarten in Scotland, whose leader Bruce was already excommunicate of the Papacy. Their disguised assistance to him in the battle of Bannockburn in 1313 produced a surprise defeat of the English. Bruce founded the Stuart line, which ruled Great Britain until 1688.

The Templars' finding refuge there may explain why Scotland was later the origin of so many banking innovations and schemers, such as William Paterson, John Law and others. Even Adam Smith assembling *The Wealth of Nations* in a Scottish village, from 1773-1776, wrote that "Scottish Banking" was dominating the world. It would be in Scotland that the mutual fund was first invented or made public.

It was through the Templars that the "Holy Grail" romances came into being. They served as an example of chivalry in action. Their theme of the infirm ruler, a land laid waste and the Knight in search of the Grail - the sacred object with the power to set things aright - still provides a pattern formula for heroic action.

The Templars later surfaced in some of the Freemason lodges. The Papacy continued to hound them and Clement XII's 1738 Bull (In Eminenti) banned freemasonry and excommunicated Catholics who participated in it. But it continued to flourish and in 1740 a Papal bull making membership in Freemasonry punishable by death had little effect. Freemasons were to have a strong influence on world developments.

Their world-view was summed up in the "*Oration*" of the Jacobite Freemason Ramsay:

"The world is nothing but a huge Republic of which every Nation is a family and every individual a child." This view point is quite different from the kind of one-worldism being peddled now. In today's version, nations are impotent and International "financiers" rule. The rest may "survive" as corporate drones, and slaves.

The Knights Templar were an important factor in the Magna Carta, England's great document of liberty of the 13th century. Their descendants, the Freemasons, were important in the French Revolution; in the unification of Italy; and most importantly in the American Revolution.

Benjamin Franklin was America's best known Freemason, being the Grand Master of Pennsylvania from 1734. "Of 56 signatories to the Declaration of Independence, 9 were definitely Freemasons, and perhaps 10 more...Of 74 general officers in the Continental Army, 33 were Freemason," wrote Baigent & Leigh. "It was largely through the lodges that they learned of that lofty premise called the rights of man. It was through the lodges that they learned the concept of the perfectibility of Society."[22]

Many of the British officers they faced in battle were also Freemasons. Ernst Troelstch, the great historian of the Reformation, agrees that while the rights of the individual came from America: "The influence of the literature of European Illuminism is unmistakable."

These ennobling influences do not preclude the possibility that there are divisions within international Freemasonry, where some traditions with less lofty ideals have also taken root.

The great Voltaire wrote that "The only fruit of the Christians in their barbarous Crusades was the extermination of other Christians." But as we have just seen, he was wrong.

## *Notes to Chapter 5*

[1] By 1233-48, Cordoba, Toledo and Seville were recaptured from the Moslems by the Spaniards. Only Granada remained under Moslem control.

[2] Cecil Roth, *World History of the Jewish People, the Dark Ages, 711 - 1096*, (Jerusalem: Jewish History Publications, Rutgers Univ. Press, 1966).

[3] James Parkes, *The Jew in the Medeival Community*, (New York: Hermon Press, 1976).

[4] Roth, cited above.

[5] Parkes, cited above, p. 17.

[6] Parkes, cited above, p. 25.

[7] See *The World Historty of the Jewish People - The Dark Ages*, cited above, Chapter five by S. Schwarzfuchs, pp. 129-131.

[8]Roth, cited above, pp. 13-25.

[9] Parkes, cited above, p.63.

[10] Parkes, cited above, pp. 63-78.

[11]Dana Carlton Munro, *The Kingdom of the Crusades*, (Port Washington: Kennikat, 1966), p.85.

[12] Michael Baigent, and Richard Leigh, *The Temple and the Lodge*, (Arcade, Little Brown, 1989), p.42.

[13] Baigent and Leigh, cited above, pp.42-43.

[14] See especially Godfrey, *The Unholy Crusade*, next footnote below.

[15] John Godfrey, *1204 - The Unholy Crusade,* (Oxford Univ. Press, 1980).

[16] Godfrey, cited above, pp.30-40.

[17] Godfrey, cited above, pp. 125-135.

[18] William Jacobs, *The Precious Metals*, (1831, repr., New York: A.M. Kelley, 1967) p. 354.

[19] Baigent & Leigh, cited above, p.47

[20] C.G. Addison, *The Knights Templar*, (London: Green & Longmans, 1842), p. 31.

[21] P.W. Edbury & D.M. Metcalf, *Coinage in the Latin East*, Bar International Series 77, 1980. 4th *Oxford Series on Coinage and Monetary History*, p. 10.

[22] Baigent & Leigh, Cited above, pp.211, 219

# CHAPTER 6

# RENAISSANCE STRUGGLES FOR MONETARY SUPREMACY

**"And all the kings horses and all the kings men,
couldn't put Humpty together again."
Children's nursery rhyme.**

The fall of Byzantium marked the passing of Caesar's money system, which had lasted over 1200 years. The money power slipped from religious to secular control. None of the powers of the time - Venice, the Princes, the Pope, or the Templars - could re-assert it and it became dispersed in the late medieval period. A struggle began for the control of money which would continue for 500 years until the formation of the Bank of England.

GROWING URBANIZATION AND SPECIALIZATION

In the later stages of the Roman Empire, the great manors, generally owned by the church and managed by their Condattore, became self sufficient. The Church held a near monopoly on literacy, accounting, capital, and management techniques, on which the Princes depended.

Around 1200 the local customs of the towns that grew at the centers of these estates became institutionalized in law. One law - "Staadluft macht frei" - gave freedom to escapees from the slave manors after living in town for a year and a day. Except for parts of Flanders and Tuscany, towns generally held less than one-tenth of the population and each town's constitution applied only within its walls; a different law prevailed outside. According to Pirenne:

"For burghers, the country population existed only to be exploited."

"All merchants continued to invest their superabundant reserves in land...in the course of the 12th and 13th centuries they acquired most of the ground in the towns. The steady rise in population by converting their ground into building sites sent up their rents to such an extent that from the 2nd half of the 13th century many of them gave up trade and became rentiers."[1]

Within the towns labor became more specialized and efficient. Capital cities grew up around the Monarch's residence as lesser nobles built residence hotels nearby.

## THE TRADE FAIRS

The principle method of promoting trade were the great fairs sponsored by territorial Princes from the 11th century. The fairs were held at particular places annually or quarterly and the importance of the fair didn't depend on the importance of the town where it was held. The greatest fair was at Champagne, sponsored by the Comte De Champagne, an early member of the Knights Templar organization.

The fairs were a "free trade zone." Taxes were waived, disputes arising outside the fairs were set aside, regulations on trading were lifted and merchants were attracted from afar with their wares and their gold and silver coins.

## THE FAIR'S MONETARY CLEARING MECHANISM

The main monetary feature of these events was a payment clearing mechanism where merchant's purchases and sales were matched and accounts were settled at the end of the fair. If a merchant sold more goods than he bought, he would receive the difference in coinage. If he bought more than he sold, he would pay the difference. If his credit was good, he could extend a debit to be payable at the next fair.

At later fairs the clearance mechanism often had reciprocating arrangements with clearing mechanisms of other fairs. Eventually cash payments at fairs became unusual. Bills of exchange and finance bills were written so as to be payable at fair times, within the fairs clearing mechanism. *The fair at Champagne even issued its own token currency.*[2]

The fairs reached their height around 1250-1300. Their importance was reduced after bill clearing mechanisms were set up in money center towns. Finally cities like Antwerp became free trade zones, or perpetual fairs.

CIRCULATING COINAGE

The gold and silver coinage of various cities was similar, but different enough for merchants to include foreign exchange considerations in their calculations. Often they didn't know whether a venture was profitable until the final exchange transaction had been completed, as foreign exchanges fluctuated considerably.

Financial historian Raymond de Roover has shown that the Middle Ages were not as primitive as previously thought:

"It is not true…(that) there was no planning, no intelligent direction, and no adequate accounting control...it was impossible to conduct medieval business in a haphazard fashion; competition was strong and profit margins were so small that merchants were forced to weigh their decisions."[3]

De Roover's made this monetary observation:

"The chief fallacy which pervades most of the work on money in the Middle Ages is the mistaken notion that 'money of account' was some kind of ideal or imaginary money which was used as a basis of the valuation of real coins. This valuation, the theory runs, could be changed arbitrarily by the monetary authorities. The 'money of account' was thus some kind of standard suspended in mid air...In reality facts do not lend support to the theory of 'ideal' money or of an independent standard...medieval monetary systems were pegged either directly or indirectly to gold and silver. They were based either on a real coin...or on a coin which had ceased to circulate; but which still represented a definite weight of gold or silver."[4]

*6a.* **The great fairs at Champagne, under princely sponsorship, developed clearing mechanisms to balance out merchant's credits and debits, and used a fiat coinage of "billon" metal with a negligible amount of silver such as this coin of Thibault II (1125-52 AD), weighing 0.88 grams and 18 mm in diameter.**

## "PECUNIA NERVUS BELLUM"

"Money is the Sinew of war" was a primary aspect of this period.[A] In the 1200s and 1300s military service became a profession and in the 1400s it required skillful direction and large capital, carried on mainly by Swiss, German and Spanish mercenaries. Wars raged most of the time; when not at war soldiers often turned to banditry.

The cost of maintaining armies was large and the money usually had to be raised quickly. Ehrenberg estimated the cost at 500,000 gold Florins for a six month period, not including provisions.

The growth of firearms and cannon forced the cities to build stronger defenses and that usually required going into debt. A city's credit rating became its most powerful weapon. The cities had an advantage over the Princes, for until the 16th century, a Prince's debt was not binding upon his successor and the princes could not be foreclosed upon. Cities, with perpetual existence, were considered safer to lend to.

## THE KINGS' MINTS

North of the Italian Republics, where Kings and Princes ruled larger expanses of territory, the monetary power naturally fell to their mints. But these powers were dispersed:

"In England only the King had the power. In France 300 vassals had appropriated the right of coinage; under the Capetians the Crown was constantly trying to recover it. At the beginning of the 14th century thirty still had the power," wrote Pirenne.[5] According to Hallam, in 1300 there were still 150 private mints in France, and 250 private mints in Italy.[6]

The Princes needed revenue, mainly for military expenses. Most of the wealth was in the hands of the clergy and nobles, who were difficult to tax. The result was that the mint became the main source of revenue. Ehrenberg noted that:

"...many Princes did a roaring business in currency depreciation."[7]

From roughly the mid 1300s to the mid 1400s has been labeled the period of "Kingly abuse" of the monetary power, and is still pointed to by banker apologists in their very limited arsenal of arguments against government managed money. Even real historians have viewed this period in terms of the immorality of monetary "debasements." Today they must also be viewed within the context of Spufford's documented European silver famine of the period, described above in Chapter 4.

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A) Machievelli disagreed: "Nothing can be more false than the common maxim that riches are the sinews of war" he wrote, pointing out that wars are made with steel not gold, and that good soldiers are the sinews of war.

"(During) The reigns of Philip le Hardi, Philip Le Bel, Louis Hutin, Philip Le Long, Charles Le Beau, and Philip Valois, when we are taught that hundreds of alterations were made in the monetary system of France...In the single year of 1346, reign of Philip Valois, there are recorded no less than ten alterations of the ratio between gold and silver in the French coinage," wrote Del Mar.[8]

Later, as the Kings were regaining the coinage prerogative throughout Europe:

"They considered the coinage merely as one of their most valuable sources of revenue. Thus when coinage once more became Royal, it was not much more stable than before. From reign to reign the quality of the coins issued became baser. Ordinance after ordinance was issued calling up the nominal value in accordance with the needs of the Crown, while its intrinsic value grew steadily less. Money was called up or down according as the King was creditor or debtor," wrote Pirenne, over generalizing:

"It became increasingly customary especially from the 13th century to multiply new issues of money the value of which became less and less each time; money was continually being recalled, re-cast and re-distributed in a worse state than before. Such transactions were particularly frequent in Germany where, during the 32 years of Bernard of Ascania's reign, the coinage was altered or, rather, debased, on an average three times a year."[9]

Louis De Mal, Count of Flanders (1346-84) is often cited as one of the worst examples of monetary management, in his use of the mint for war expenditures:

"(He) provides the classic example of monetary manipulation inspired by greed, or if attacking greed in government seems either redundant or naive, by fiscal not economic considerations. He minted exceptionally large amounts of coin and obtained the necessary metal mainly by devaluing previous issues and enticing them to the mint by offering more coins of the same legal value with less silver content," wrote Lane,[10] adopting an anthropomorphic view of government.

Spufford's research showed that Louis De Mal's mint activities accounted for 20% of his governmental revenue. Even Del Mar, who understood that often the Princes' actions were not merely self serving, wrote:

"Indeed nothing more curiously, yet unerringly marks the emergence of the Christian Princes from the position of vassals to that of independent Monarchs than the open flagitious and radical alteration, debasement and degradation of the coinages which began in all parts of Europe after the fall of Constantinople, and which unlike the previous alterations parted completely with the Roman standards and never returned to them."[11]

*These authoritarian regimes in general produced a very poor monetary result when compared to the more self governing Italian Republics, as described in Chapter 4.*

ADMINISTRATION OF THE PRINCELY MINTS

The Princes generally provided the mint's plant and equipment and hired the mint master. Minting was usually farmed out to the highest bidder with the workforce coming from privileged hereditary corporations whose members also held other jobs:

"Some were bakers and others were carpenters, they were not allowed to engage in banking…," wrote Spufford and Mayhew.[12]

When hereditarily called to the mint, it usually meant a loss for them since they had to drop their other businesses and were irregularly paid by the mint.

DEBASEMENT AS A TAXATION SUBSTITUTE

By examining the taxation aspect of this process, Spufford has shown it in a fuller context, pointing out that a coinage debasement was an effective tax; equitable and unavoidable on the wealth of the subjects, and was relatively easy to administer.[13] He also noted the necessity of reducing the metal weight of new coinage issues from time to time to reflect the wear and tear weight loss on already circulating coinage. This was necessary if metal was to be attracted to the mint, and if the old and new coinages were expected to circulate together.

As early as 1340 it was well understood that the debasement of the currency was very good for labor, fairly good for industry and merchants, and bad for landowner rents. The debasements were brought to an end when the landowners successfully promoted the writings of Nicolas Oresme, which condemned the process (see Chapter 12).

*However, the Prince's mixing of taxation with the money system retarded the development of monetary thought and gave the impression that money was merely a commodity:*

"The extravagant monetary policies of feudal lords tended in many ways to give added weight to a pure commodity theory of money...Monetary policy (between 1200 and 1700) would have faced fewer difficulties if the commodity concept of money had commanded less respect. Its persistence as an ideal obstructed and delayed the development of a workable system of redeemable money,"[14] wrote Usher. But he also promoted the commodity concept of money in his notion of requiring its "redeemability" into a commodity.

MONNAES NOIRE

Along with the silver and gold coinage, "billon" coins, or monnaes noire or black money circulated. It was so called because at over 95% copper and less than 5% silver, it turned black with age. Black money was used for small everyday transactions and was accepted in limited political jurisdictions, generally a city. Their issue was increased during the silver famines. Much more research is needed on these "black moneys"; their importance may have been seriously underestimated by the tendency of earlier researchers to focus on the glitter of gold and silver.

THE MEDIEVAL MONEYLENDERS

From the 10th to the 13th century the Papal collectors were the first Christian moneylenders. Rich monasteries also made loans, but from about 1200 onwards, ecclesiastical establishments rarely lent money. They couldn't compete with the Knights Templars and the Italians, and the Church was enforcing the ban on usury.

The Knights Templar, with their chain of holdings to the Levant, were the main financial power during the 13th century partly because they found a way to benefit from the East-West dichotomy in the gold/silver ratio. When they were suppressed in 1307, the field was opened to the Italians. The Templars brought double entry bookkeeping back from the Crusades and the Italians were among the first to master it. De Roover notes that "In all centers...the great Italian banking houses were the principal lenders and practically dominated the money market."[15] The importance of the Jewish moneylenders during the medieval period has been greatly overstated, except perhaps in England:

"Compared with the efflorescence and ubiquity of Italian credit, that of the Jews appears a very small affair and the part which they played in the Middle Ages has certainly been much exaggerated. In actual fact the more economically advanced a country was, the fewer Jewish moneylenders were to be found there. In Flanders there were never more than a negligible number but they became increasingly numerous toward the east of Europe...The revival of Mediterranean commerce in the 11th century made it possible to dispense with them as intermediaries, with the Levant...The Jews of the West were reduced to mere pawnbroking...their connections with their co-religionists not only in Europe but in the Islamic lands of the south made it easy for them to procure the ready money which they required for their business...," wrote Pirenne.[16]

# THE PRIVATE BANKERS

## DEPOSIT BANKING IN CATALONIA

Deposit banking arose in the Catalonian region of Spain in the early 1200s at about the same time the bank of St. George started in Genoa. Deposit banking was generally intended to perform safekeeping and transfer services, not to make loans. But after 1200 in Catalonia:

"(The) Crown was borrowing considerable sums from Jewish money lenders and from the Templars....In 1251 Roman Law, Gothic Laws and the Decretals of the Church were declared invalid (in the area)."[17]

These banks were private enterprises and ran into typical banking troubles, as seen from the banking laws enacted in 1300-1301:

"No moneychanger shall keep a bank in any place in Catalonia unless he shall first have given surety (a bond)...

"No moneychanger who may fail, and none who has recently failed or in times past failed, shall again keep a bank or hold any office under the Crown" and "Until he shall have satisfied all demands, he shall be detained on a diet of bread and water."

An appendix was added in 1321:

"If no such settlement is made, they shall be proclaimed bankrupt and disgraced by the public crier in the places in which they failed and throughout Catalonia. ***They shall be beheaded and their property shall be sold for the satisfaction of their creditors by the Court***...Neither we nor the most high heir apparent, nor our successors may pardon any money changers who have failed or may henceforth fail." And,

"In 1360 Fracesh Castello was beheaded in front of his bank."[18]

## THE ITALIAN BANKING HOUSES

Only the Italians made "foreign" investments in the 1300s. Their main lending mechanisms were the bill of exchange and the finance bill. Charging interest on riskless loans was generally forbidden by the Church. But as there were merchants who needed to borrow and bankers who wanted to lend, they found semantic ways around the prohibition. One method was to advance a sum in one city's coinage, guaranteed by a bill of exchange in a higher amount in another city's coinage and calling it a foreign exchange transaction rather than a loan.

Think of it as a post-dated check in another currency payable after some months. The interest charge was contained in the difference between what was advanced and the amount of the postdated bill. Finally, the bill might never be sent for collection. The borrower would pay the loan in local money. This became known as "dry exchange."

Like a modern day check, a bill had to include the name of the person to whom it was payable, the amount, and date payable; the name of the paying institution and the name of the person who was paying - whose account would be debited. Such checks could also be sight drafts for immediate payment. The time necessary to clear these bills in the 1400s was as follows:

| | |
|---|---|
| between: | Florence and London - 3 months |
| | Florence and Brugge - 2 months |
| | London and Brugge - I month. |

That wasn't so bad when today it can take a month to clear a check between Germany and Switzerland.

STRUCTURE OF THE ITALIAN MERCHANT BANKS

Each Italian city state negotiated its own trade agreements. The main Italian trading cities were Venice, Genoa, Florence, Milan, and Lucca. In addition there were the notorious Lombards from Asti and Chieri in northern Italy.

The real strength of the Italians was in their ability to combine finance with trade in goods. Their houses were organized as unlimited partnerships. At first they were centralized as one company with subsidiary branches. Later, houses such as the Medici of Florence became compartmentalized, with a partnership for the main office and a partnership for each branch as a separate legal entity, in which a senior family member held a controlling interest. These branches charged normal commissions and interest in their dealings with each other, but they also promoted each other's business.

In 1458 the Medicis had seven international branches. Branch managers received a portion of the profits but also had capital invested. Managers went to Florence every two to three years to report. These were not large houses employing large numbers of people. The capital of the partnerships was their own, plus retained earnings. In addition they sought time deposits from wealthy Italians, including Clerics and Princes, on which they paid a fixed return of 7, 8 or 10%.

## SEASONAL PATTERNS WERE KNOWN

Merchants and bankers were aware of seasonal variations in trade, due to the fixed seasonal sailing dates of the Venetian fleet to and from various trading centers. Uzzano's Handbook For Merchants advised them not to react to actual circumstances but to anticipate them. For example, it advised against sending money to places where it was scarce and removing it from places where it was plentiful, because conditions would probably have changed by the time the transaction was completed.

According to Ehrenberg the Florentines of the mid-1400s knew accurately when to expect the recurrent periods of tight and easy money in various markets. Being such major lenders, one would think they could see from their own books when large amounts were due to themselves. That time would be a tight money period, as the borrowers would be scrambling to get together the money to pay them, thereby soaking up liquidity from the market. Periods of easy money would be just after they got repaid, and would therefore be in a position to re-lend.

## EARLY BANKER MYOPIA

While much is made of the Kings and Princes abusing the money systems, the private bankers often did worse. In 1339 the Florentine bankers were ruined when they greatly over-extended themselves in loans to Edward III of England who was unable to repay their millions of gold Florins when his war with France went badly. Florence was in turmoil. The guilds took power, expelled the bankers, and seized their possessions.

The clever Florentine bankers (the Medicis) tried again, loaning to Edward IV for the "War of the Roses" and also loaning to the rebels he was fighting against - just in case. But in 1564 the rebels were dead and Edward was broke. Their London branch came to grief.

*The obvious lesson - loans must never be overly concentrated.*

The merchant bankers of Lucca, though overshadowed by the Florentines, had been among the first to cross the Alps. They were moderate, kept good relations and neutrality, and outlived the Florentines in both Antwerp and France.

THE LOMBARDS

The Lombards were essentially pawnbrokers making loans on pledges of personal property. They were found throughout Europe, but were tolerated rather than privileged. Their position was similar to that of the Jews - disliked everywhere, generally expelled from all countries, and occasionally, though much less frequently, massacred.

They took time deposits and paid interest on them using the capital for the pawn-broking, often going bankrupt to the ruin of their small depositors. Like the Jews, they usually charged 43 1/2 % per year. The medieval pawnshops were an obvious place to "fence" stolen property. De Roover notes that "The Lombards were surrounded with so much odium that other Italians did not care to associate with them."[19]

STATE OWNED BANKS

In 1400 Barcelona organized a city owned deposit bank as a department of the municipal government, which guaranteed its liabilities. It was to allow overdrafts only to the city but in fact also allowed substantial overdrafts to the city commissioners.

The Barcelona bank was not a monopoly; private banking was allowed alongside it. By 1433 it appeared to be leveraged 3 to 1, but was really leveraged about 10 to 1 - it had allowed overdrafts on its books to the city and others amounting to 10 times its usable deposits![20]

In 1468, during the great silver famine (see Chapter 4), a severe coin shortage forced the bank to suspend payments. It issued a 5% annuity to all depositors willing to accept them. Public officials were personally responsible for the honest functioning of the bank during their terms of office, but they fell behind in their auditing, whereby the prior 6 or 7 administrations were still unaudited! *The lesson - independent, timely auditing is essential.*

# THE GREAT DISCOVERY: BANKS CREATE MONEY

It must have soon become apparent to the Templars, the Italian merchant bankers and the great German lending houses that they possessed the power to create money in the form of bookkeeping credits on their books.

The bankers sought deposits, on which they generally paid interest, and then made loans at higher rates, or used the money to discount bills (cash post dated checks) at a discount. Deposits were received in coinage, or if a bill was deposited, drawn upon another bank, ultimately coinage could be collected from that bank. However, the loans would not have to be made in coinage, but could be in credits to the borrower's account at the bank - in bookkeeping entries. The borrower would have the ability to write checks on that account. Such checks might not actually be cashed, but be credited to another account on the books of the same bank.

Once their clients got into the habit of conducting business with bills of exchange (checks) rather than actual coins, it became possible for the bankers to greatly multiply the apparent amount of money in circulation, in the form of these credits.

*In many ways this was a monetary power greater than the King's control over the mint. This bank money was a more true fiat money form and further removed from crude barter than the "precious metals" coins. But the bankers were usurping a power that derives from and belongs to society, and using it for personal benefit.*

First, they could write their own bills for use in their own business. Second, they could charge interest on the loans they were making, with money they created with a bookkeeping entry! They drew goods and resources from society without contributing anything to society. The whole process was inflationary, but because it fraudulently pretended that the bankers' paper was redeemable in metal, the system would collapse when too many bills had been written and finally their coinage reserves would be drained away.

One could argue that this usurpation of society's money power *at that time* was justified, as Byzantium fostered such a great shortage of money in Europe over the centuries, and the expertise and legal power to create a proper money system had degenerated. The science of money had been lost. However, the evidence is that such bank money developed mainly where the supply of money was already abundant.[21] So even in this case, it is difficult to find justification for privately issued money.

This type of banking business was growing dramatically in the late 1200s, and loans made by banks, mainly through overdrafts, far exceeded their capital and deposits.

De Roover notes that it was also carried on by certain monasteries and especially by the Knights Templar. For example, by 1409, Genoa's Bank of St. George had coinage reserves of less than 10% of its deposits.

There was no regulation of these deposit creations. At times the banker's guild performed a form of self-policing; but they were mainly concerned with honest bookkeeping. In Florence, bank entries had to be made on the books before the customer left the premises. They had to be written in Roman numerals because Arabic numbers were too easy to falsify. Torn out leaves of the book were viewed with great suspicion. No blanks or erasures were allowed. The guild levied fines and reported offenders to city authorities.

However, nowhere do we find any discussion of the big picture - the impropriety or immorality of what they were doing in creating money. The fact is that it was taking value from society without giving anything in return.

*Despite all the problems encountered by the king's mints, the city republics, the city owned banks, and the private bankers, overall these developments represented a healthy decentralization from Byzantium's stifling, multi-century hard money system.*

The circulation of money in areas distant from Constantinople was increased dramatically, fueling industry and development. Peasants began to purchase their own land. Interest rates plunged from 20 - 22% in 1200, down to 5 - 8% in 1350. The revenues of the city of Florence had an eleven-fold increase from 1240 to 1343! She was striking 350,000 to 400,000 gold florins a year, which became the standard throughout Europe.[22] *The Dark Ages were over.*

THE FUGGERS

These powerful German moneylenders of medieval times were next to appear on the scene, centered at Augsburg in Bavaria. In the early 1500s the Fuggers surpassed the dominant Florentine money lenders.

The Augsburg Germans learned the money lending business from the Italians. Hans Fugger, a weaver, founded the House of Fugger with 3,000 Florins in 1367. His great grandson, Jakob Fugger II, who put the Fuggers on the map, had been studying for the priesthood but shifted to business at age 14. He learned the trade at the Fondacio Dei Tedeschi - the German traders compound at Venice.

In 1488, just after the peak of Europe's great silver famine, the Fuggers got control of the Tyrol silver mines, Europe's greatest mines of the time, by loaning 150 thousand Florins to the Archduke. Through family connections they gained influence at the Augsburg mint and "possessed the right of coinage for nearly 100 years."[23]

Control over both the source of silver and the minting of it gave the Fuggers great power in the monetary sphere. From 1525 they were

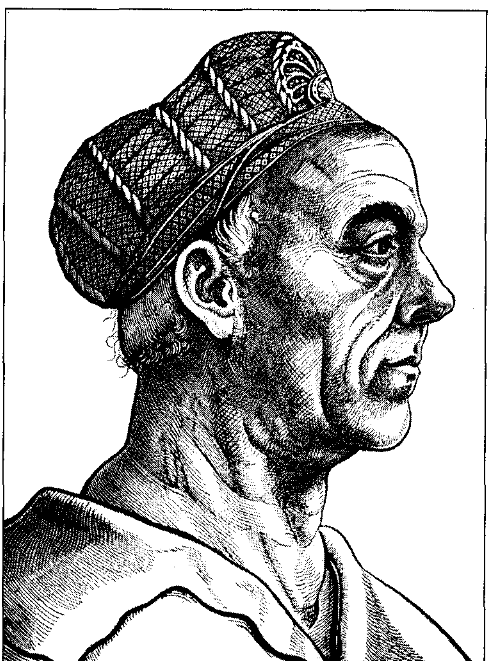
Europe's most influential financiers. They charged up to 30% on small loans, but as little as 2% on large loans. They maintained an extensive courier service which kept them well informed of any important political and financial news. Fugger bills of exchange were considered as good as gold and actually became an article of current trade.

The Fuggers operated internationally, through offices in Antwerp and even had a representative in India. In 1503-1508 they held shares in the Portuguese round the Cape voyage, but were only allowed to participate in the first one. They kept their House intact over several generations by keeping the business in the hands of the male heirs; the females were given dowries.

The Fuggers loaned to Emperor Maximillian, Queen Elizabeth I, and various princes and clergy. In 1518, they backed Emperor Maximillian's grandson, Charles V for the Kingship of Spain. In theory, the Church's College of Electors elected Princes to these positions. In practice this meant bribing the churchmen, and the price of the Crown was rising. 850,000 Florins were needed to do the job. The Fuggers lent 543,000; the Welsers lent 143,000; the Genovese and Florentines lent 165,000.

"The election of Charles came down to one vote, the Margrave of Brandenberg. Francis had offered him a rich French wife with a large dowry. But Fugger countered with the granddaughter of Maximillian, and 300,000 Rhenish Guilden." "Charles thus won not an election, but an auction of the College of Elector's vote," wrote Flynn.[24]

The French King, angry over losing Spain, warred on Charles, and was able to out



*6b.*

**Jacob Fugger had saved 3,000 guilders as a weaver, which he then used to start the great Catholic Fugger money lending fortune, with European heirs to this day.**

bid him for the services of Swiss mercenaries, as he had used up so much of his credit to purchase the election. Charles would be in trouble and unable to repay the Fuggers for decades. In 1523 Jakob Fugger wrote him trying to collect his money:

"...It is also well known and clear as day that your Imperial Majesty could not have acquired the Roman Crown without my help, as I can demonstrate by documents of all your Imperial Majesty's Commissioners. ...if I had remained aloof from the house of Austria and had served France, I would have obtained much profit and money, which was then offered to me. Your Majesty may well ponder with deep understanding the damage which would have resulted for your Imperial Majesty and the house of Austria. Considering all this, I humbly petition your Imperial Majesty, graciously to... decree that the sum of money due me together with the interest should be (paid) without further delay..."[25]

Still, during this period, from 1511 to 1527, the Fuggers had profits of over 1.8 million Gulden.[26]

The Fuggers were Catholics and were often involved in Church finances. When Albrecht of Brandenburg was made Archbishop of Mainz he had to pay 30,000 Ducats to the Pope for the position and borrowed it from the Fuggers. For an extra 10,000 Ducats the Pope put him in charge of the New Jubilee Indulgence for Saxony.

Everywhere the "Pardoner" Tetzel went, selling the forgiveness of sins, he was accompanied by a Fugger representative with a key to the indulgence chest. Whenever it was full, the entire contents were paid to the Fuggers. They paid half of it to the Curia and the other half went to their loan. This kind of business led to the Reformation.[27]

The Fuggers' operations apparently required close personal supervision, for in 1548, when heirs were uninterested in the business, Anton Fugger liquidated a substantial part of the firm, distributing 2.1 million of its 5.1 million Guilden in assets.[28]

By 1563, Hans Jakob Fugger was in serious difficulty. The opening of the Cape Route had greatly altered European trading relations. His loans to Spain had gone bad, and his castles and property were seized. His descendants didn't want to enter the business, but other Fuggers took over his debt.

The Fuggers were extremely unpopular and though their motto "Silence is Golden" has survived, they also left a more profane contribution to every-day English. "To 'Fugger' meant to carry on trade in general and in the popular mind it had an evil connotation in the sense of usurious trade or sharp practices," wrote Streider.[29]

And, according to Ehrenberg, the Fugger name is the source of the expletive "F_ _ker." Though the Fugger archives have remained largely intact, there are no reference works on them at the great research library in New York at this time.

WELSERS, HOCHSTETTERS AND TUCHMANS

The Welsers of Augsburg were the second largest German money-lenders. Like the Fuggers they remained Catholic. Unlike the Fuggers they tried to maintain neutrality in loans to warring parties; but it only aroused the anger of both sides. The Welsers lasted until 1620, though their branch at Ulm continued into the 20th century. While the Fuggers tried but failed to acquire a large part of Chile, the Welsers did acquire a province of Venezuela. Their contribution to the English language is probably the word to *"Welsh"* on a debt.

The Hochstetters of Augsburg, the third largest and most hated moneylenders of the time, like the Fuggers and Welsers, were Catholics.

*6c.* **Charles 5th at the Fugger castle after repaying their loan, to secure his election as King of Spain from the Church's College of Electors. Fugger has thrown the indebtedness papers into the fire.**

Their own partners bitterly complained about their dishonest balance sheets. Was their language contribution to go into *"hock"*? Finally the Tuchers of Nuremberg perhaps gave us the term to put the *"touch"* on someone.

The audacious Jakob Fugger gets the last word in his self-written epitaph of January 1526:

"To God, all powerful and good! Jakob Fugger of Augsburg, ornament to his class and to his country, Imperial Councilor under Maximillian I and Charles V, second to none in the acquisition of wealth, in liberality, in purity of life, and in greatness of soul, as he was comparable to none in life, so after death is not to be numbered among the mortal."

# BRUGGE: POWERHOUSE OF THE NORTH

Brugge was the trading capital of Northern Europe. Flanders was the most densely populated area of Europe and excelled in the manufacture of fine cloth, which had been perfected from Roman methods and was in demand everywhere.

Brugge had three classes of money dealers: The Italian merchant bankers, the Lombard pawnbrokers, and the Flemish moneychangers.

The Lombards were irrevocably expelled from Brugge at the beginning of the 1600s.

The Italian merchant banks were involved in both trade and banking, except for the Florentines who concentrated on finance. As bankers they were not lending at interest but were using the bill of exchange mechanism to accomplish the same purpose. The volume of their bills of exchange transactions was much larger than the volume of their merchandise trade transactions.

"In Brugge there was the custom to pay bills of exchange by transfers in bank rather than in (coin)."[30] They would credit someone's account rather than pay out coins, much as today when most checks are deposited, they are credited to one's bank account rather than cashed for actual currency.

Europe's first major Bourse, or exchange, was in Brugge. "Bourse" was the family name of the Flemish innkeepers frequented by brokers in the 1200s and 1300s.

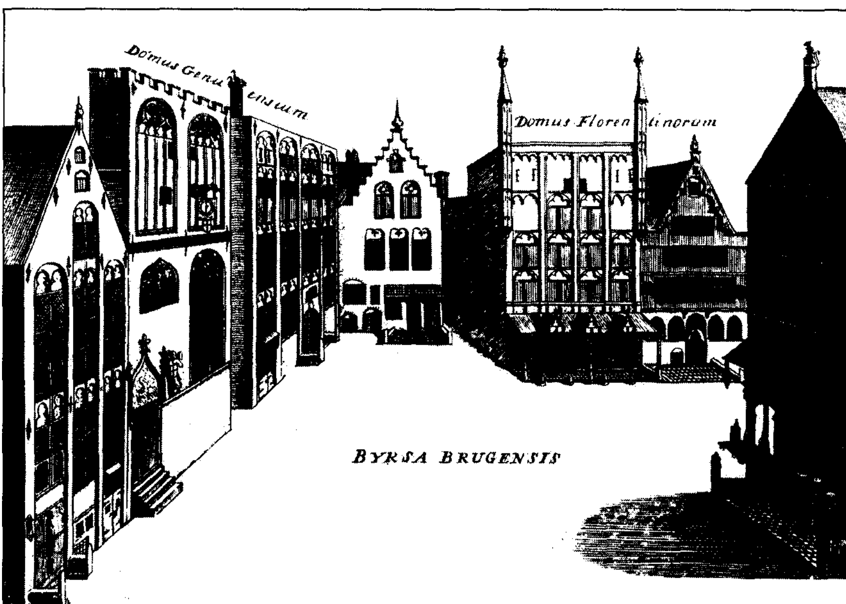
BRUGGE'S COINAGE

Brugge minted silver coins called the Groat (after the Venetian Grosso). It contained 1.82 grams of silver in 1356. By 1467, at the height of Europe's silver famine, it contained only 0.71 grams. Brugge had an open mint, which accepted all silver presented to it for minting into stamped silver bars which were in demand by the merchants of the Hanseatic league. These merchants often preferred such bars to coinage. Brugge also had a copper coin for small change called the Mite, officially valued at 1/24 of a silver groat. The cost of manufacturing the Mite was about half of its value.

THE FLEMISH MONEYCHANGER BANKERS

By 1325-50 exchanging one type of coinage into another was reserved to the Flemish guild of moneychangers:

"It had become customary in Flanders by the 2nd quarter of the 1300s for merchants and individuals to deposit with the moneychangers excess coins for safety. Moneychangers used it to expand their business...a form of deposit banking...At first the depositors didn't even know or give consent. Later they knew and didn't care as long as they could get




*6d.* **The *Place de la Bourse* in Brugge, Europe's first major exchange. The Inn (center) was operated by the "Bourse" family; thus the origin of the name for exchanges.**

their money on demand...it was convenient in a difficult coinage situation...The vast majority of accounts were small, with a few big accounts...orders to moneychangers were oral...No interest was paid on deposits. It seems as though no interest was charged on overdrafts (loans) either! They took their fees in the form of gold exchanged for silver and vice versa…in 14th century Brugge a [coinage] reserve of 29% was maintained by a typical [Flemish] exchange banker," wrote De Roover.[31]

The Brugge moneychanger/bankers transfered funds from one client's account to another and also made transfers to clients of other moneychangers. To do this every moneychanger kept an account with each of the other moneychangers, which could be debited or credited. According to De Roover this type of non centralized clearing house mechanism had also existed in Genoa from 1200 AD.

# THE HANSEATIC LEAGUE

Whereas the Italians had linked Brugge to the South and the Mediterranean, the Hanseatics linked Brugge to the East and the Baltic.The cities of northern and central Germany banded together into a powerful commercial union called the German Hansa or Hanseatic League.

"Hansa" in German means warrior bands. The members of the Hansa were not merchants but the towns themselves. While a Pagan Hansa had predated the Christian Hanseatic league by perhaps three centuries, the beginning of the League is put at 1179 AD with the founding of Lubeck, now a beautifully preserved medieval town on the Baltic, about 50 miles northeast of Hamburg.

The Hansa "core" were the Wendish towns with Lubeck as the nominal center. Other chief towns were Cologne, Bremen, Brunswick, Danzig, and Visby. Membership was by application. Self-interest, not coercion, held it together. At its height in 1450 there were about 180 member towns.

## HANSA ACTIVITIES

The Hansa protected its merchants in foreign ports, negotiating special privileges for them, primarily tax breaks. It maintained four "Kontoors" in the major centers it traded with that were not Hansa towns: Brugge, London, Novgorod (Russia), and Bergen (Norway). These Kontoors served as trading outposts, depots, and hotels, and except for Brugge were stockaded structures. In Novgorod, the Kontoor site was the stone Church of St. Peter, surrounded by a palisade with one entrance. The Church housed the treasury, weighing machines and was a depot at times filled with goods.

The great trade axis of the Hansa was: Novgorod - Reval - Lubeck - Hamburg - Brugge - London. The cloth of Flanders was shipped East; furs, wax and oriental luxury goods were brought back to the West.

Hansa merchants organized themselves into many independent partnerships. Merchants from different towns often had a common interest in many different ventures. The trade was primarily maritime and for several centuries the Hansa had the best ship in the Baltic - the Cogge - about 90 feet long, 20 feet wide, and 10 feet deep. It had oars and sails and could carry 30 tons. The ship's captain usually owned 1/8 to 1/4 of the ship and only married men with children at home were allowed to captain vessels. The penalty for desertion by sailors was death. After about 1400 it became mandatory to keep a ship's log.

The methods the Hansa used with its trading partners were negotiation, suppression of trade, blockade, and war. In 1280 it brought Brugge, its most important Kontoor, to its knees by shifting headquarters to another Flemish town. Brugge was forced to grant additional concessions to bring it back. This exercise was repeated several times in later years.

In 1284 the Hansa blockaded Norway, purposely causing a great famine. When the blockade was finally lifted the Hansa forced the Norwegians to pay them the profits they had foregone while maintaining the blockade.

The Hansa was able to undertake military actions from about 1370 after associating with the Teutonic Knights. The Teutonic Order was the strongest element of the Hansa, was its largest ship owner, and its Grand Master was the only Princely member among the League.

## THE HANSA HAD NO MONETARY POWERS

The Hanseatic League had no formal legal status except for its Hansetag general assembly, organized in 1356. The Hansetag met irregularly yet made all decisions regarding the ratification of treaties, foreign negotiations, decisions of war or blockade. It could institute financial and economic regulations of all kinds upon its members.

Yet the Hansa had no monetary powers whatever, a fact that argues against the assumption that money was originated by merchants.

According to Dollinger, the Hansa was unable to envisage the unification of the various money systems within her domain, even though the various currencies were a serious obstacle to Hanseatic commerce.[32]

"In the Hanseatic orbit the most widely used currencies were the Lubeck Mark, the Flemish Pound of Groschen, and to a lesser extent the English Pound Sterling." The Lubeck gold Mark was equal to the Venetian Gold Ducat. Hansa merchants also used stamped silver bars.

After 1350 the desire to simplify the currency led to monetary agreements among towns, but the only one of importance was among the Wendish towns of Lubeck, Hamburg, Wismar, and Luneburg in 1379. Other towns adhered to it temporarily. In principle it was an organization entirely distinct from the Hansa, incorporating non Hansa towns and holding meetings at different times and places from the Hansa. When the Hansa legislated on monetary matters, it was only on instruction from this Wendish union. Its crowning achievement was an 18 gram (290 grain) silver coin, with the coat of arms of the four towns minted in about 1500. The Wendish union had no means of compulsion.[33]

The Hanseatic League peaked around 1450 when Dutch shipping became faster and cheaper. The 30 Years War (1618-48) of the Reformation also damaged it, with the population of Germany falling from 17 million down to 8 million at war's end. Some Hansa towns supported and others attacked the Reformation. From 1630 the Hansa was being dissolved and the last meeting of the Hansetag was in 1669.

The Hanseatic League was very concrete bound and conservative. They were called "the merchants of the Holy Roman Empire" and the Teutonic Knights were the Pope's biggest agents for Christianizing or exterminating the Pagan Goths. They had a strong bias against using credit in trade and allowed no futures markets trading. They forbade selling herring before it was caught and grain before it was grown and cloth before it was woven. This attitude against futures markets was so strong that aspects of it survived until the early 1990s when most futures contracts in Germany were not legally binding upon the speculator.

## THE GREAT 150 YEAR WAR AGAINST CREDIT

From about 1400 a major battle raged between the Hanseatic league along with the House of Burgundy using a cash based trading system, against the Italians, south Germans, English and others using credit in trade. This struggle with the bankers for control of the money power took the form of a war on credit. There was no organized money market in the Hansa towns:

"One of the oddest features of Hansa policy was that it thought it necessary to engage in a systematic campaign against credit...on the grounds that it caused instability of prices which would upset business. Sometimes a buyer would prefer to sell at a loss in order to get ready cash to settle debts; at other times not being obliged to pay on the nail he would agree to an excessive credit. Credit was also accused of increasing the temptation to take risks and even worse of favoring the dishonest schemes of unscrupulous merchants, thus compromising the good name of the Hansa," wrote Dollinger.[34]

The Hanseatics were alarmed by the Italians' command of credit. They met them at Cologne as moneylenders and at the Champagne Fairs and then at Brugge, England, and Frankfurt. According to Dollinger the Hansa recognized the financial power of the Italians and their superior commercial techniques. Furthermore the south Germans were learning the Italian methods.

BRUGGE GETS DEFLATED

This epic struggle against credit raged on the battlefield of Brugge for 150 years, starting in 1389 when the House of Burgundy, in reaction to an extended inflationary period resulting from credit expansion, adopted a hard money policy and brought on a severe deflation. De Roover called the deflation "even worse than the currency inflation of the previous period."[35]

The beneficiaries of the deflation were the landed gentry, the clergy, and the rentiers. Rents, which remained constant, were being paid in more valuable money. Finally in December 1390 the Brugge City Treasurer was nearly killed by an angry mob and rents were scaled down by urgent legislation.

Ten years later Brugge deflated again, ordering that all bills of exchange after Oct. 2, 1399 were to be paid in coinage and not by crediting an account in a bank. This severely limited a bank's power to create money.

It was further decreed that all foreign exchange bills were to be paid in gold; silver was phased out in 3 steps over about a year. By demonetizing silver, a major part of the money supply was wiped out with extreme deflationary effect. The decree quickly became unworkable, had to be amended, and was soon repealed in September 1401.

Then the Hansa joined the battle:

"...they demanded and obtained an abolition of (all) credit transactions, even in Flanders in 1401. Lubeck forbade for three years all buying and selling on credit with foreigners in Flanders...in 1411...all imported goods had to be accompanied by a certificate saying that they had been bought in Flanders for cash," wrote Dollinger.[36]

By 1541 some variant of this process was repeated 5 times. The Hansa tried to enforce the same policy in London but failed. In 1433 the city of Brugge suppressed all bankers, foreign and domestic. An ordinance of 1489 gave the reasons:

"(The banks) have wrought utter ruin among all classes of people, but especially among the merchants and persons of note. Next the ordinance accused the bankers of all kinds of offenses against the common weal and more specifically of picking and culling the currency, of sending bullion to foreign mints and of bringing the underweight monies of these mints into (domestic) circulation. These accusations were grave...the financial advisors to the Dukes of Burgundy were not children in matters of finance...there is no doubt that the practice of picking and culling was greatly facilitated by the fact that the bankers accumulated in their coffers a considerable fraction of the total stock of (coinage),"[37] wrote De Roover.

The Dukes of Burgundy and the Hanseatic League accurately described aspects of the bankers' credit creation activity, but nowhere do we find them correctly identifying this activity as usurping the monetary power of society.

The policies wreaked havoc on the bankers. In 1478 the Medicis sold out their Brugge branch to their local partners. In 1488 the branch was catastrophically liquidated. In 1494 a mob invaded their Palace in Florence and burned the records. Machievelli blamed the failure on lack of discipline and attention, but their business tactics, which generally worked in an inflationary environment, had no chance in a deflationary one.

## THE DECLINE OF BRUGGE

The Dukes of Burgundy and the Hanseatic league won the battle but lost the war. The larger bankers were international and could move. When a fortuitous opportunity presented itself with the opening of the sea route around the Cape of Good Hope in 1503, they shifted their operations to Antwerp. Brugge went into decline, its canals silting up. It is now a lovely city in Belgium, with many parks, colorful old canals, and very aggressive swans.

This decline occurred even as the commercial dominance of Europe shifted from the Mediterranean to the North Sea. But before we examine that process we will see how economic ideas and standards, especially the concept of usury, were being formulated in a Europe independent from Byzantium.

### *Notes to Chapter 6*

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[3] De Roover, *Money, Banking and Credit in Medieval Brugge*, (Cambridge Univ. Press, 1948), p. 29

[4] De Roover, cited above, pp. 220-221.

[5] Pirenne, cited above, pp. 110-115.

[6] Robert Noxon Toppan, *Paper to the Philadelphia Antiquarian Society*, April,1888.

[7] Richard Ehrenberg, *Capital And Finance In The Age Of The Renaissance*, A.M. Kelley reprint, 1967, Chapter I.

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[14] Usher, cited above, p. 195.

[15] De Roover, cited above, p. 57.

[16] Pirenne, cited above, pp. 130-134.

[17] Usher, cited above, pp. 237-238.

[18] Usher, cited above, pp. 239-240.

[19] De Roover, cited above, p. 108.

[20] De Roover, cited above, pp. 318-320, and Usher, cited above, Chapter 5.

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[24] John Flynn, *Men of Wealth*, (Freeport, NY: Books for Libraries,1971), p. 33.

[25] 1523 letter from Jakob Fugger to Emperor Charles V, *The City of Man*, pp. 180-1.

[26] Ehrenberg, cited above, Chapter 1.

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[30] De Roover, cited above, p. 57.

[31] De Roover, cited above, pp. 173, 305.

[32] Philip Dollinger, *The German Hansa*, Trans. By Ault and Sternberg, Stanford University Press, 1970, pp. 206-226.

[33] Dollinger, cited above, pp. 207-227.

[34] Dollinger, cited above, p. 205.

[35] De Roover, cited above, p. 227.

[36] Dollinger, cited above, p. 206.

[37] De Roover, cited above, p. 340.

# CHAPTER 7

# THE SCHOLASTICS - THE MORAL ECONOMISTS

**"Whence if men were silent against usurers, the stones would cry out if they could."**
**William of Auxere (1160-1220)**

The Basileus, the sacred arm of the Byzantine/Roman Empire, the institutional successor to the Pontifex Maximus, lost control of the money power with the fall of Constantinople in 1204. Three Eastern offshoots of the Empire attempted to hold the monetary prerogative but failed. Its successor in the West, the Catholic Church, was unable to re-constitute the power as Princes began minting gold coins.

When Pope Boniface wrote to Philip le Bel claiming him as "A subject both in spirituals and temporals, Philip replied 'We give your foolship to know that in temporals we are subject to no person.' This remark blew away the last spark of Caesar's Empire," wrote Del Mar.[1] *The "Old World Order" had fallen.*

But religion would continue to play a paramount role in economic thought and activity. The Church's primary mechanism in this area would be moral suasion and its powerful tools included denial of the sacraments, excommunication and the threat of eternal damnation.

The Church scholars were called the *Scholastics* or *Bookmen*. Many were later canonized as Saints. They were familiar with the available writings in existence and focused a good part of their attention on economic matters, particularly on usury and the "Just price."

*They were attempting to build a rationally based moral code of* *business behavior to determine what should be rather than what was.*

Their guides were the writings of the Church fathers and Councils that had convened over the centuries. The Bible was not a predominant influence upon them, most references to usury being in the Old Testament. By the early 1200s the works of Aristotle became available in the West and he became their guiding light.

THE JUST PRICE

Price was considered the main factor determining equity or justice in commercial transactions. Far from attempting to dictate or fix prices, the Scholastics devised rules of thumb for use when disputes arose. Bargaining over terms was left to the parties and buyers and sellers were expected to try to take advantage of each other. One rule of thumb according to Odd Langholm, in *The Aristotelian Analysis of Usury*, was that such attempts should not go beyond 50% of the "just price." In other words trading should occur in a range between 50% and 150% of the fair price.[2]

Bernard Dempsey noted that "The rules of markets of the Scholastics are very similar to the stated but unreached goals of today's markets." He quotes Leanord Lessius (1554-1623):

"A common market is one from which monopoly is absent. From which is excluded every machination and effort of merchants by which they bring it about that they alone have the sale of something or sell at a certain price; where the price is based on the common valuation, made in good faith, entered upon without conspiracy or trickery, in view of the supply or the scarcity of goods, buyers and sellers and other circumstances."[3]

FREE BARGAINING NECESSARY

Of great concern to the Scholastics was whether fraud or duress existed so as to invalidate the conditions of free bargaining. Langholm noted that "If one party to a contract was in the economic power of the other party and this power was wielded to obtain unjust terms of exchange, the terms did not stand."

According to Bartolus (14th century), fraud existed in dealings when there was exploitation of the immature or the mentally deficient; where there was insufficient information, blackmail or moral coercion; or when one party was in the power of another.[4]

Thomas Acquinas (1225 - 1274) in Summae Theologica wrote that it was immoral for the seller to use a buyers dire situation, to demand a higher price, as the seller would then be selling something that "didn't belong to him"; for example *life* to the starving.

According to Peter Olivi of Siena (1248-98) the nature of the buyers utility or need was irrelevant to a "just price."

*The Scholastics saw no difference between taking advantage of existing duress or of actively causing or applying duress.*

They recognized private property, but held that in a condition of the

*7a.* **St. Thomas Aquinas, 13th century student of the Aristotelian Master St. Albert the Great at Cologne, Germany. It was Aristotle and not the Bible that mainly influenced these Scholastics.**

"utmost need" all things were considered as held in common, and anyone in the utmost need could take the goods held in abundance by another for the preservation of his life.

Clearly much of today's commerce would not measure up to the Scholastic's standards of justice in trade.

THE SCHOLASTIC VIEW OF MONEY

The Scholastics concentrated more on economic than monetary reasoning, but still had the most advanced theoretical concept of money of the period, except perhaps for those involved in banking. Two basic views on money were shared by most Scholastics.

First, they correctly maintained that there was a distinction between money and capital goods. While this distinction, even made by Aristotle, is the first key step necessary to advance monetary thought, it is a point that Calvin's Reformation found critical to dispute. Thus we find a relentless attack against Aristotle, over the 16th, 17th and 18th centuries. In the 20th century the advocates of usury, or capitalism, such as Ayn Rand, have taken a different tack, appearing to embrace Aristotle, while obscuring or ignoring his monetary message.

Second, the Scholastics considered the value of money to be exempt from the laws of supply and demand, and in this they were mistaken. A more careful reading of Aristotle's statement in Chapter 1 on the supply and demand and value of money was needed.

The scholastic John De Lugo clearly stated the nature of money:

"The principal distinguishing characteristic of money is not derived from the material but from the value by which it is formally constituted in the nature of money," and he distinguished between two kinds of money as:

A)Material and

B)Formal 1) Legal or Pragmatic

2) Natural (intrinsic and extrinsic)

*The chief failure of the Scholastics was that they entirely missed the fact and the importance of bank created deposits as money.* Over a period of several centuries, "deposit creation as an economic phenomena is unmentioned by them," wrote Noonan.[5] This unfortunate oversight is one reason for the lack of moral condemnation of such deposit creation in the present day, whereby banks substitute credit for money, through a process known as fractional reserve banking, which we describe later.

## THE USURY PROHIBITION

The Scholastics' prime economic concern was the practice of usury and their theory of usury is the first attempt at a science of economics in the West. They had observed the bad effects of usury and "had an intuitive insight into the problem only now becoming apparent" wrote Noonan.[6] They based their condemnation of usury on reasoning and observation; and on Divine, Natural, and Human Law.

## CHARGING INTEREST REQUIRED THE PRESENCE OF RISK

People today see the ban on usury as a strange doctrine of backward churchmen. Growing up we are told to save regularly and earning interest is taught to us as a moral imperative! How can it be wrong? Well, for one thing the ban on usury has been misrepresented.

At no time was it forbidden to take interest under proper conditions. The key was whether the lender was actually taking some risk without a certain gain. Venice had utilized advanced financial structures for hundreds of years, rising to the commercial domination of Europe without violating the bans on usury. Usury was not the same thing as just charging interest - it was taking unfair advantage.

Two types of loans were *always* exempt: first the "Societas," where the lender assumed some portion of the risk of the enterprise. Most of Venice's Collegenza partnerships were in this category.

Second, the "Census" was always exempt. This was an obligation to pay an annual return based on some "fruitful" property. At first it was paid in real produce, later in money. The Census was normally capitalized at eight times the annual return, *but the risk of the "fruitful" base was on the lender, not the borrower. In other words if the crop were destroyed by weather, the borrower had no obligation that year.* Later, cities issued "census" obligations based an tax revenues, which came to be called "rents."

Interest could also be charged when the lender was suffering some loss or was passing up some opportunity in extending the loan.

## DIVINE AND HUMAN LAW

Most of mankind's moral/legal codes recognized the anti-social effects of usury and condemned, censured, or limited it in some way, usually with mild limits on interest rates and related conditions. **But the Old Testament has strong prohibitions against usury.**

Jews were strictly forbidden from taking usury from their "brothers" (other Jews) and were discouraged in taking it from strangers. (The Old Testament references to usury are : Deut. 15:7-10; Psalms 14:5; Exodus 22:25; Leveticus 25:35-37; Amos 8:4-6 and Ezekial 18:8. The New Testament is mostly silent on usury.) The Scholastics were looking upon all mankind as brothers.

Other codes restricting usury include:

*The Senchus Mor, the ancient Celtic law book;

*The Code Of Hammurabi (2130-2088 BC) limited usury to 33%;

*Lycurgus' Constitution, 8th century BC and Solon's Reforms, 594 BC;

*Hindoo Law - Damdupat - when interest reached the full amount of the loan no further interest could be charged;

*Roman Law for over 1,500 years limited interest to 4 to 12%. Cato's work on agriculture - De re Rustica gave the Roman view of usury:
"It would be advantageous to seek profit from commerce if it were not hazardous, or by usury if that were honest; but our ancestors ordained that whilst a thief should forfeit double the sum he had stolen, the usurer should forfeit quadruple what he had taken..."

*The 6th century Roman Code Of Justinian reduced the 12 1/2% limit of Constantine the Great down to 4-8% and accumulated interest could not exceed principal:
"The Code of Justinian dominated the subsequent span of Byzantine history. From time to time all interest was prohibited but subsequently the laws of Justinian were re-installed," wrote Sydney Homer.[7]

*The Koran totally forbade usury.

*The laws of Charlemagne flatly forbade usury in 806 AD. He also gave a broader definition of usury: "Where more is asked than is given."

*The Magna Carta limited usury.

*Most States of the United States enforced usury limits until 1981.

ARGUMENTS FROM AUTHORITY

St. Ambrose of Milan (340-397) had opened the usury door by allowing it against enemies, but St. Jerome (340-420) preached that the usury ban to brothers was universalized in the Church. Pope Leo the Great (440-461) had categorically forbidden church clerics from taking usury and condemned laymen for it. This was the cornerstone of later Christian usury laws.

In 850 the Synod of Paris excommunicated all usurers. The 2nd Lateran Council (1139) declared that unrepentant usurers were condemned by both the Old and New Testaments.[8] In 1185-87 Pope Urban III's citation of the words of Christ : "lend freely, hoping nothing thereby" (Luke 6:35) had a strong impact.

But it was in the area of natural law - arguments from principle and observations of the evil effects of usury, that the Scholastics made their most powerful arguments. Logical reasoning, the Scholastics' main tool, is particularly applicable to such moral questions, as well as to mathematics, and to law.

THE CONCENTRATION OF WEALTH

St. Bernardine of Siena (1380-1444) noted that public usurers were usually foreigners, often Jews, and they drain the wealth of the city into other lands. *Usury concentrates the money of the community into the hands of the few:*

"It is a contagious disease, for now all men are usurers."[9]

William of Auxerre (1160-1220) eloquently wrote that usury was against natural law and was innately sinful, yet men pursue it "as if it were a business and a way of living…The usurer injures all creatures, even the stones; whence if men were silent against the usurers, the stones would cry out, if they could..." It was the sinfulness of selling time, which only God can give.[10]

MISDIRECTION AND ABANDONMENT OF INDUSTRY

Pope Innocent IV (1250-1261) "Said usury is prohibited because of the evil consequences that follow from the practice. If usury were permitted, all rich persons would rather put their money safely in a usurious loan than invest in agriculture. Only the poor would be left to do the farming and then they would not possess the animals and tools with which to farm. Famine would result. "Innocent's argument it might be added may seem naive or exaggerated at first, but the experiences of agricultural communities, such as ancient Greece, or China throughout most of its history offer considerable corroboration," wrote Noonan.[11]

Henri Pirenne, in *Medieval Cities,* remarked: *"The scourge of debts, which in Greek and Roman antiquity so sorely afflicted the people, was spared the social order of the Middle Ages and it may be that the Church contributed to that happy result."*[12]

THE INFINITE APPETITE

In Chapter 13 we present a mathematical exercise demonstrating that over enough time, even low levels of usury mathematically can destroy any money system. There is no indication that the Scholastics performed this kind of calculation but they came close intuitively. For example:

Burudian (d.1358), a professor at the University of Paris, wrote:

"Usury is evil because it is unsocial, illiberal, and because the usurer seeks avariciously *what has no finite limits.*"[13] This places its results outside of nature - often outside of the possible.

In The Divine Comedy, Dante viewed usury as in conflict with nature:

"Usury offends the Divine goodness...

"...From these two (philosophy and physic)...it behooves mankind to gain their life and advance. But because the usurer holds another way, *he contemns nature in herself,* and in her follower, *since upon other things he sets his hopes.*"

And then Dante gave the userers Hell:

"Their woe was bursting forth through their eyes...and when I set my eyes on the face of certain of those on whom the grievous fire falls, I did not recognize one of them; but I perceived that from the neck of each was hanging a pouch, which had a certain color and a certain device."

ARISTOTLE'S CONDEMNATION OF USURY

Aristotle stood tall as a Classical civilizing influence; a bulwark against the church's descent into superstition and ignorance; and blocking oriental tendencies.

Around 1250 his philosophy was being taught at Cologne by St. Albert The Great (1206-1280), the acknowledged Aristotelian master and the most influential medieval authority on science and philosophy. Thomas Acquinas was one of his students.

Aristotle, who the Scholastics reverently referred to as "The Philosopher" condemned usury:

**"The most hated sort [of wealth getting], and with the greatest reason, is usury, which makes a gain out of money itself and not from the natural object of it. *For money was intended to be used in exchange but not to increase at interest.* And this term interest (tokos), which means the birth of money from money is applied to the breeding of money because the offspring resembles the parent.**

**Wherefore of all modes of getting wealth, this is the most unnatural."** (1258b, *Politics*)

"...those who ply sordid trades, pimps and all such people, and those who lend small sums at high rates. For all these take more than they ought, and from the wrong sources. What is common to them is evidently a sordid love of gain..." (1122a, *Nicomachean Ethics*)

*Aristotle is saying that money in principle is sterile. It does not beget more money the way cows beget more cows, or fields grow grain. He says that usury on money is contrary to the purpose of money, created by society as a measure and medium of exchange. He also attacks usurers based on his observations of their bad behavior and character.*

"When Aristotle takes up the question of the social function of money, in the Politics, what weighs upon him is the danger of a perversion of the purpose for which it was invented. Money...has a 'telos;' usury is an unnatural use of money." wrote Noonan.[14]

The Scholastics echoed Aristotle:

St. Thomas Acquinas (1225-1274) argued that money is a measure and usury "diversifys the measure." He meant that placing additional functional demands upon the money mechanism as usury does harms its function as a measure.

Henry of Ghent wrote: "Money is medium in exchange, and not terminus."

Alexander Lombard: "Money should not be able to be bought and sold for it is not extremum in selling or buying, but medium."[15]

Aristotle's works helped bring mankind's mind out of the darkness. They will be of supreme value as long as the human race continues, even where technological advances and instrumentation have shown him to be incorrect. His teachings became a primary obstacle to those promoting usury.

Aristotle's distinction between money and wealth has been affirmed in the 20th century for example by Knut Wicksell, the father of modern day interest rate theory, who wrote: **"It is not true that money is only one form of capital; that the lending of money constitutes the lending of real capital in the form of money. *Money does not enter into the process of production, it is in itself as Aristotle showed, quite sterile.*"**[16]

**I have added the italics because those words do not appear in the English translation of Wicksell's book.** Instead, translator R. F. Kahn or his editors have substituted the notation "etc." in place of those highly telling and descriptive terms![A] (on p. 186)

*7b.* **Aristotle, who the Scholastics referred to as simply "the philosopher," spoke to them from across the centuries in a far more powerful voice than the Bible. His cogent arguments against usury were thus conveyed into Europe, with long-term beneficial effects.**

USURY: THE MISUSE OF THE MONEY MECHANISM

A strong word is needed to describe the anti-social manipulation of monetary, banking and credit systems: a word as powerful as genocide, since the manipulation of money has often had similar effects. Aristotle's term for this is chrematistics, or chrematism. *Chrema* is a word for money in Greek.

*In English the best word for the structural misuse of society's money system is usury. The current mis-definition of the term as the taking of excessive interest, shows how far we have been led from understanding this subject.*

ACTION AGAINST USURERS

In medieval times judicial action was only taken against the "manifest usurers," those practicing it openly - the Jews and the Lombards. Contrary to current opinion, the "usury traffic of the Jews was never viewed as permissible," wrote Noonan.[17]

Discrete usurers, those who employed semantic tricks in making

A) Knut Wicksell; *Interest And Prices*; English translation by R.F. Kahn, 1936; A. M. Kelley reprint, 1962; page xxvi. This carefully controlled "grooming" of the thoughts of Austrian economists in America would be de-railed if those economists were to really understand Aristotle's monetary views. Some Austrian economists would like to claim Wicksell as one of their own, but these ideas are very foreign to the Austrian's view of money.

loans, were mainly worried about excommunication and being denied the holy sacraments, especially burial in sacred ground. In order to expiate the mortal sin of usury, it was necessary for the usurer to make monetary restitution to his "victims" and if he couldn't find them, to the poor through the Church. Vast amounts of money were left to the Church for the benefit of the souls of departing usurers. The heirs of usurers were also required to make restitution.

## THE SEMANTIC AVOIDANCE OF USURY

Every conceivable semantic trick was used to get around the usury prohibition. Goods were sold on credit at a higher price which factored interest into it. "Dry Exchange" bills in foreign currency were executed but not sent for collection and later resold to the borrower, the maker of the bill, for a higher amount, reflecting interest. The rationale was that it was a fee to change money. The Church never tried to regulate foreign exchange dealings, but condemned it if its purpose was really usury and the usurers were expected to make restitution.

Most of the writings of the Scholastics were not addressed to consumptive, nonproductive loans, but to commercial loans, and as economies became more dynamic, with growth possibilities, it was becoming clear that charging interest on business loans, where the borrowing merchant prospered, couldn't be condemned as greed or lack of charity.

By the end of the medieval period, there were really only two important arguments against usury still standing: Aristotle's point that money was sterile and usury was counter to the purpose of money; and Acquinas' argument that the usurer could not sell both the money and the use of it.

According to Aquinas, once the money was handed over ("sold"), a "just trade" would require an equal value to be repaid to the lender. To demand more would be to either violate the "just trade" rule, or to alter the value of the money.

If the lender claimed more because of the benefit the borrower would receive from employing the money, it meant the lender wasn't really transferring full ownership of the money, but was unfairly transferring all the risks connected with ownership, to the borrower. But the borrower could not really use the money without consuming it, say in the purchase of productive goods.

## THE FALL OF THE USURY PROHIBITION

With an increasingly powerful moneylending class, and the Church's moral power weakened by corruption, it was just a matter of time - and money - before the flood gates would be opened. By 1516 the idea of a lending institution charging interest for its services had been widely accepted.

Then Conrad Summenhart, a student of Biel, the medeival scholar at the University of Thubingen in Southern Germany, came forward. Summenhart put aside Aristotle's view by declaring it was all right to use something in a way that was not intended.

But this ignored that such a use, improper according to Aristotle, might adversely affect the intended purpose of money as a medium of exchange and measure of value. The error arose ultimately from a confusion of wealth, with money. This mistake was easy to make when money became based on commodities.

In 1515 the city of Augsburg, hometown of the Fuggers, was challenging Florence for the financial leadership of Europe. The Fuggers financed John Eck, a student of Summenhart, to argue his thesis allowing a certain type of usurious contract. This was the so-called "guaranteed insured contract," also known as the Triple Contract, the German Contract, or the 5% Contract. John Eck argued his thesis for five hours before the full assembled University of Bologna, then the most celebrated school of canon law in Europe.

This so-called 5% contract semantically invoked an insurance principle whereby an "investor," for an insured guarantee of 5%, gave up all further gains on the investment. John Eck made this "triple" contract known to all and assured everyone that it had been in use for over 40 years with no one being denied the sacraments.

John Cauvin (Calvin) finished off the usury ban in 1536. His arguments were shallow compared to the attention the Scholastics gave to the problem. "When I buy a field does not money breed money?" he asked rhetorically.

The Scholastics had shown the correct answer is no. It is the field and not the money that grows products. Calvin was not enthusiastic about usury. But he called it sinful only if it hurts one's neighbor; that charity and natural equity alone could decide specific cases and that it was generally legitimate in business loans. Calvin put aside the Aristotelian argument on the purpose of money. He also disputed Aristotle's concept of free will, placing Calvinism in even more profound opposition to Greek philosophy than the Catholic Church had been.

## KEEPING THE USURY GUILT ALIVE

The Church's policy allowed new forms of loan making in response to the pressure of the developing commercial need, but never rescinded the sinfulness of the past forms of usury. Perhaps there was too much at stake in the forthcoming postmortem bequests of the old usurers!

The Church moved very slowly on usury. It was not until 1822-36 that the "Holy Office" said that interest allowed by law could be taken by everyone. It was ambiguous, however, and only for the guidance of penitents and confessors. It stated, "Those who preach that it is licit to take profit from a loan by title of the Civil law...define by private authority a question which the Holy See did not yet wish to define."[18].

Even in 1917 in the Codex Iuiis Canonici, it was still left slightly unclear. The Church appears to be aware of the grave problems associated with usury, but has not had the courage or ability to discuss them openly.

The Scholastics held back the usury deluge for centuries. *One of their lasting contributions has been to identify that monetary and economic questions are profoundly moral issues.* This fact has been suppressed by those engaging in predatory economic activities. Yet the connection between money and morality has stuck deep in the psyche of mankind, where it can one day be revived, and hopefully soon.

## 20TH CENTURY CONFIRMATIONS

Some 20th century economists, such as Baum Bauwerk, Wicksell, Schumpeter, Von Mises, and Irving Fisher, concluded that in the medieval world the Scholastic ban on usury was correct, because the medieval economy was a relatively static one, without growth possibilities and in such a static condition the "natural rate" of interest would have been close to zero. Also, in general there was no inflation.

While this support of the Scholastic position is interesting, it disregards the need to consider morality in economics and inadvertently deflects a true examination of the Scholastic's position. Chapter 13 discusses whether money's nature implies some limits to its usage.

## MARTIN LUTHER

The attention that the Scholastics gave to morality was in stark contrast to the corruption in the hierarchy of the Church. Martin Luther was infuriated by this corruption and attacked the Pope in colorful language which by today's standards would be four letter words. Luther was equally critical of the Jews and let them have it in the same terminology. He was a true reformer, railing emotionally at the generally fraudulent state of affairs.

Asserting that he received revelations direct from God, Luther wrote extensively on his economic views:

"If companies are to go on, then that will be the end of law and honesty; if Law and honesty are to remain, then the companies must cease."[19]

*Today we only hear calls for law and order - a very different concept.*

On usury, Luther went through three periods. First he condemned

*7c.* **Martin Luther had a reforming spirit, which rebelled against the evident corruption and hypocrisy in the hierarchy of the mother-Church. Luther used "colorful language" - the equivalent of four letter words today - in his attacks on the Pope and the Jews.**

anyone who charged interest as:

"A thief, robber and murderer...Money is an unfruitful commodity which I cannot sell in such a way as to entitle me to a profit. ...

"In its effort to make a certainty out of what is uncertain, will not usury soon be the ruin of the world?"[20]

Next, from 1523-25 Luther was somewhat reconciled to usury after being frightened by peasant revolts and their preacher leaders such as Dr. Jacob Strauss of Eisenach. These populists used the Mosaic Law of the Bible to threaten the concept of private property. Luther and Melanchton condemned any popular initiatives in this matter, Luther claiming that reform had to originate with Princes, and Melanchton declaring that the Law of Christ was not to be taken as the basis for the organization of secular society.

Then after a 15-year silence on usury, in the midst of a severe usury/economic crisis in 1539, Luther again blasted the userers, starting with the Princes.[21] Martin Bucer (1491-1551) became a kind of bridge between Luther and Calvin on the usury question. He preached that the Old Testament prohibition only forbade "biting" usury - "neshec" - meaning poison snake bite.

Unfortunately Martin Luther was not aware of the advanced usury concepts developed by the Scholastics:

"Luther tore the whole of this beautiful fabric to the ground, and carried back the teaching on usury to the primitive bare prohibition of all gain on loans, with the inevitable result that it could not be lived up to in the facts of modern life, and that it consequently fell into disrepute," wrote George O'Brien.[22]

It may be of some importance that Luther supported polygamy, which had taken a long time for the Roman Emperors to suppress among the Germanic tribes.

Luther appeared at a time when the commercial importance of the Germanic peoples had been growing. There was the Hanseatic league in the North and the Fuggers and other financiers of Augsburg in the South. However, in the world of commerce the round-the-Cape route to India quickly built up Antwerp and then Holland, and Germany's relative importance was reduced as a middle station between East and West trade.

Lutheranism would become more of a Germanic territorial movement and Calvinism would dominate in Holland, and later for a time in England and still, in America.

# JOHN CALVIN'S REFORMATION

"Usury was the brat of heresy"
Thomas Wilson (1572)

Luther's first protest occurred in 1517. His books were just reaching Paris in 1519 when John Calvin was a student there. Calvin's father Gerard, accused of embezzlement from the church, had refused to render accounts to the Cathedral authorities at the Notre Dame de Noyon Cathedral, about 65 miles northeast of Paris. The holy sacraments had been denied to the household. Gerard was excluded from burial in consecrated lands and became a lawyer.[23]

In just seven years at school Calvin was able to meticulously read most of the important body of Church writings. In 1536, at the age of only 25, while living in Switzerland under the name Martianus Lucanius, he published "*The Institutes*" and seized the Reformation. While Luther's was a reforming spirit, Calvin's was more of a revolutionary nature.

Four writers on the Reformation stand out: Ernst Troelstch; R.H. Tawney; Werner Sombart; and Max Weber. Troelstch defined "The great main problem of economic history as the problem of the character and origin of capitalism."

It is in the "Reformation" and its relation to Judaism, with its connections to the east-west trading axis, and the dichotomy in their gold/silver ratios, that elements of the answer can now be postulated. For we find among these elements the sources of many problems affecting present day monetary, social and spiritual life.

## CALVIN'S TEACHINGS

Calvin's teachings were addressed primarily to the classes engaged in trade and industry. He began by immediately attacking Luther:

"Persons who, abandoning the Scripture, imagine to themselves some other way of approaching to God, must be considered as not so much misled by error as activated by frenzy."[24]

Rather than reforming the priesthood and hierarchy, Calvin did away with it. The great goal of the faithful was the salvation of their souls for eternity. Under the Catholic Church this was achieved through faith, good works and the sacraments administered by the Priesthood. Calvin eliminated these by preaching the doctrine of a chosen people - the "elect," chosen by:

"[God's] gratuitous mercy totally irrespective of human merit...the


*7d.* **Jean Calvin dismissed Luther as "frenzied" and then transformed the Reformation into a revolution. His effect was to greatly elevate Judaism and to re-assert the Arrian Heresy, formerly decried at the Council of Nicea. This charge flustered Calvin, but he could not answer it.**

remainder have been consigned to eternal damnation by a just and irreprehensible, but incomprehensible judgment."

Calvin justified this "incomprehensible" position by eliminating the concept of free will:

"Man is not possessed of free will for good works, unless he be assisted by grace, and that special grace which is bestowed on the elect alone in regeneration."[25]

Calvin realized that this was irreconcilable with Greek philosophy and quoted the correct line:

"They add, that unless virtue and vice proceed from free choice, it is absurd either to punish man or reward him...this argument is taken from Aristotle." But Calvin didn't answer the argument; he stonewalled it:

"It is divine election which distinguishes among men."[26]

Calvinism's basic appeal was an attack on the Priesthood. While he got rid of the Priests, his tenet that good works don't matter removed the potential of his code to guide human behavior - limiting its value as a moral code. What then would it become a code of?

"In denying the efficacy of good deeds and of the human will, in leaving on the one side as useless all the doctrine and tradition of holy poverty, Calvin opened the door to the domination of the mind by money. St. Thomas Aquinas had said it centuries before - that if men abandoned the idea of God as the supreme good they would tend to replace him by the idea, implicit, not directly stated...that material wealth is the supreme good," wrote Hilaire Belloc.[27]

Belloc characterized the Reformation as "a rising of the rich against the poor" and indeed Calvin had written the unfortunate statement:

"The people must always be kept in poverty in order that they may remain obedient."[28]

This closing of communication to God through the Church had serious effects:

"(It) led to the Deification of the Bible…[Calvin] maintained the scriptures to be 'self authenticated…and ought not to be made the subject of demonstration and arguments from human reason,'" wrote Brooks Adams, noting that the elimination of the priests and their fees was "evidently a device of the Mercantile community and the savings to those who accepted it were enormous, but it disintegrated Christendom, and made an organized priesthood impossible. When each individual might pry into the sacred mysteries at his pleasure, the authority of the clergy was annihilated."[29]

## CALVIN'S ELEVATION OF JUDAISM

Calvinism's doctrines greatly elevated the position of the Jews. The Calvinists' concept of a "chosen people" echoed Jewish dogma. Calvin's insistence on the Old Testament as the absolute word of God - a new idea at the time - greatly enhanced the Jewish position since it had been written by Jews:

"It was the followers of Calvin, and especially the Puritans who first elevated the Old Testament into a position of supreme importance," wrote George O'Brien, who noted that during the Middle Ages the "blanks" in the Gospel were filled by Aristotle's work and by natural reason;

"But the Calvinists discarded the great body of acute thought which had been raised on this double basis and sought for direct guidance in the code which had been laid down for the ancient people of God. By so doing they insensibly and unconsciously eliminated anything that was specifically Christian from the scheme of social morality and fell back on the Old Testament and the Jewish standards of commercial dealing."[30]

Third, Calvinism adopted as scripture the sections titled "Hebrews" - which had been rejected in the Greek versions. The translator's preface to Calvin's *Commentaries on the Epistle of Paul to the Hebrews* describes the effect:

"The arguments are founded on testimonies found in the Old Testament and not on his [Paul's] authority as a commissioned apostle. His main object appears to have been to shew and prove that the Gospel is but a fulfillment of the ancient scriptures which the Jews themselves received as divine. His arguments and his examples are throughout borrowed from the Old Testament. This is a fact that is too often overlooked...the epistle begins by indicating a connection between the Old and the New Testament: Both are revelation from the same God; he who spoke by the prophets in the Old speaks by his son in the New. Then the obvious and inevitable conclusion is, that the New is but the Old completed. It is on this ground that the whole argument of the epistle proceeds."[31]

Fourth, Calvinism relied on the Massoretic, or Hebrew, text instead of the more accurate Greek. In spite of what the *Cambridge History of the Bible* called:

"The doubts which had been raised concerning the veracity of the

Massoretic text...(and) willful malicious tampering with it on the part of the Jews."

The *Cambridge History of the Bible* observes that:

"The Hebrew text of the Synagogue (had been) relegated to an inferior status. The Reformation had, however, instigated a counter movement. Its reliance on the Hebrew text accorded the latter a new place of honor in biblical studies..."[32]

One reason for adopting Hebrew over Greek could have been an attempt to block out the teachings of Aristotle, which a knowledge of the Greek language would have encouraged and facilitated. Calvinism was thus an elevating of Jerusalem over Athens; of East over West. Judaism's religious influence grew and eventually dominated in the West through Calvinism.

Fifth, Calvinism's legalization of usury would be very important to the Jews, condoning their primary monetary activity at that time.

Finally, in putting the Catholic Church on the defensive, Calvin weakened the main countervailing force that had limited the practice of usury.

ECONOMIC EFFECTS OF CALVINISM

Of great consequence was Calvin's acceptance of usury, the effects of which were much better known at that time. Actually he had a distaste for usury:

"Calvin deals with usurie as the apothecaire doth with poison," wrote Roger Fenton.[33]

"Usury was the brat of heresy," wrote Thomas Wilson in his book *A Discourse upon Usury*.[34]

Calvinism also introduced a doctrine promoting competition. Performance of the terms of agreed upon contracts became the overriding determinant of commercial justice, apart from the contents of the contract, or any unfair circumstances which led to their being accepted. *This led to an ever widening gulf between morality and the law. The study of economics would eventually come to reject considerations of morality!*

Henry Holzer, a leading professor of constitutional law, has written:

"Without entering into a discussion of schools of jurisprudence, the writer does venture to express the opinion that the world did not gain when it abandoned the fusion between law and morals that the canon and early civilian lawyers insisted on."[35]

Ernst Troelstch summed up Capitalism's economic and moral effects, but maintained that they were at odds with Calvinism's original intent:

"The imposing but also terrible expansion of modern capitalism, with its calculating coldness and soullessnes, its unscrupulousness and pitiless-ness, its turning to gain for gains sake, to fierce and ruthless competition, its agonizing lust of victory, its blatant satisfaction of the tyrannical power of the merchant class, has entirely loosed it from its former ethical foundation; and it has become a power directly opposed to genuine Calvinism and Protestantism."[36]

In the spiritual realm, according to Belloc, the effects were a distaste for joy and ease and beauty; an isolation of the soul through the elimination of private confession; and the concept of a chosen race. While the Prophet Mohammed had eliminated the complexities of Christian Dogma, other concepts of the necessity of morality in economic activity were kept alive and strengthened in Islam.

As with all religions, terrorism played an important role. Calvinists burned one hundred and fifty heretics in Geneva in 60 years, including a child for striking its parent. But the primary fuel for Calvinism appears to be financial. In particular, the introduction to the *"Institutes"* contained an open invitation to secular rulers to seize the vast Church lands and estates in their domains.

## SEIZURE OF THE CHURCH LANDS

Oliver Cromwell's grandfather, Thomas Cromwell, and elements of England's establishment began seizing the Church lands when the Tudors broke with the Papacy in 1536-53 (see Ch. 10).

Calvin appealed to the French nobility to take the monasteries in France. According to historian Belloc, the Bourbon family became the main vehicle for this policy.[37] In one sense this represented a better distribution of wealth - from the super super rich - the Church - to the merely super rich - the "nobles." However, in this process, especially in England, the serfs who had been allowed the use of Church lands were increasingly expelled without any means of survival as lands were enclosed. Tawney characterized this as an attempt to extend legal rights of ownership while repudiating legal obligations, which led to a theory of land ownership apart from the idea of the owner as a steward or trustee.

This grasping for privilege while rejecting responsibility has become a hallmark of modern capitalism in America.

## CALVINISM'S DEVELOPMENT IN ENGLAND

The English establishment had an early distrust of Calvinism. They had engineered their own secession from Rome. But Calvinism would eventually take root in England and help bring down the ruling House. In England it was called Puritanism:

"Puritanism, not the Tudor secession from Rome, was the true English Reformation...The growth of Puritanism was by means of the city of London," wrote Tawney.[38]

Which is to say, by way of London's merchants.

Troelstch noted how Calvinism challenged all governmental activity that didn't conform to its interpretation of the Bible:

"Calvinism…successfully established the principle of the right of resistance…on behalf of the word of God…the exercise of which becomes the duty of the (lesser) magistrates…failing these it must be put in practice even by the individual; indeed in virtue of a special call thereto, the assassination of a tyrant is permissible."[39]

**Bibliolatry And Protestantism**

Frederick C. Grant in his study *The Gospels - Their Origins and their Growth*, thought that in modern times (1957) Protestantism had progressed beyond bibliolatry, worshipping the Bible as the absolute word of God:

"Bibliolatry has ceased to be dominant in the Protestant world, where it once flourished and where, indeed it reached its climax; its place has been taken by a saner, more wholesome, more constructive, a more ethically and religiously satisfying conception of the biblical literature and of the history behind the literature."[40]

However, this positive development has yet to reach those Christian sects that are growing in America and have taken on an especially political character. They have regressed to bibliolatry. We have seen this factor growing in political debates, where its main effect has been to ignore conditions of economic injustice, which could be fairly easily remedied. Instead, the effect has been to concentrate on irreconcilable social issues, leading to a divisive and polarized politics of hatred.

**Bibliolatry Destroys Citizenship**

That the Bible can be used to render civil government ineffective and vulnerable is demonstrated in Chapter 10 below, in Hobbe's description of the "religious" undermining of the English Monarchy. We see clear examples of this in modified form in present day America.

**Bibliolatry Can Destroy Civilization**

"By their fruits shall ye know the tree" applies to the events of September 11, 2001. We must understand and admit that the destruction of New York's 110-story World Trade Center towers, collapsing on 2,800 people, was an indirect result of the "deification" of religious scriptures. This was done first by some Jews and Christians, in their doctrine of a "chosen people" - a diseased concept that has allowed the media demonization and subsequent mistreatment of the Palestinians for decades. Second, by some Moslems, reacting innappropriately to that injustice, only with further hatred and injustice.

Such religious zealots, whether Jewish, Christian, Moslem, or whatever "faith," have made themselves implacable enemies of common decency and now represent a great danger that societies must face. People trying to live in harmony with their fellow man must not allow the fanatics to do evil under a pretense of morality. *Their true classification is not under the banner of religion or morality, but of insanity. The World has suffered their nonsense for too long. It is necessary, for the benefit of the children, to publicly identify them as insane.*

**Bibliolatry Can Ruin The Mind**

A side effect of Bibliolatry is seldom considered: it can reduce the mind's power of critical thought and observation. Looking at the Bible as the literal word of God inevitably limits the mind's ability to use the full methodology available to human beings for gaining knowledge: mainly observation, reason and logic, intuition, memory, transferring analogous conceptual structures, even authority.

But Calvin's deification of the Bible renders it "self authenticated... not to be made the subject of demonstration and arguments from human reason." Once a mind accepts it as the literal word of God, that mind can no longer apply the human learning methods to the Bible itself or to matters contained in the Bible.

*One must not surrender one's mind and soul in that way, no matter what the promised benefits. The mind must never be abandoned, neither to superstition nor to any seductive "ism" claiming to offer salvation in alternative form, such as Capitalism, Communism, Objectivism, Socialism, or Individualism, to name a few.*

Life is more complex and more interesting and potentially much more beautiful than that!

## SOMBART'S ANALYSIS

Werner Sombart came to a startling conclusion in *The Jews and Modern Capitalism*:[41]

"That which is called Puritanism is in reality Judaism."

Sombart described the mid 1600s political activities of the English Puritans to support his point:

"...the 'levelers' who called themselves 'Jews' in opposition to their opponents whom they termed Amalekites, advocated the adoption of the Torah as the norm of English legislation. Cromwell's officers suggested to him to appoint seventy members to his Privy Council...the number of members of the Sanhedrin. To the Parliament of 1653 general Thomas Harrison, the Anabaptist...clamored for the introduction of the Mosaic legislation into England. In 1649 it was Moved in the House of Commons that the Lords Day should be observed on Saturday instead of Sunday. On the banners of the victorious Puritans was inscribed the 'Lion Of Judah'...not only the Bible but the Rabbinical literature as well, was extensively read in large circles of the clergy and laity."[42]

and,

"Those parts of the Puritan dogma which appear to be of real importance for the formation of the spirit of capitalism are borrowed from the realm of ideas of the Jewish Religion."[43]

To some degree, Sombart may have mixed cause and effect, when he attributed a nation's prosperity to the presence of large Jewish communities in that nation:

"Cannot we bring into connexion the shifting of the economic centre from the southern to the northern Europe with the wanderings of the Jews?...Israel passes over Europe like the Sun: at its coming new life bursts forth; at its going all falls into decay."[44]

Troelstch thought Sombart overestimated Judaism's importance. Milton Friedman, commenting on Sombart wrote: "Indeed, if anything, I interpret the book as Philo-Semitic."[45]

How did a condition so favorable to Judaism arise in 17th century England, where the Jews had been banned for almost 400 years? Chapter 10 will discuss the "Great English Bible Flood."

Puritanism is the form of Calvinism that landed in the new world. Tawney wrote:

"The discipline of Calvinist Church State was carried to its furthest extreme in the Puritan theocracy of New England."

## WEBER'S ANALYSIS

Our fourth reformation theorist, Max Weber, is the most prominent of the four, and the one most likely to be read at the undergraduate level in American universities, especially his essay *The Protestant Ethic and the Spirit of Capitalism*. Weber formulated a split definition of capitalism - one Jewish and one Puritan (Calvinist):

"In fact the difference, in general, with the necessary qualifications, may be formulated: That Jewish capitalism was speculative pariah-capitalism, while the Puritan was bourgeois organization of labor."[46]

Weber thus largely excluded the problem of usury within capitalism when he defined the "spirit of capitalism" as:

"Naturally that of the modern rational enterprise peculiar to the Occident (West), not of the sort of capitalism spread over the world for three thousand years, from China, Babylon, Greece, Rome, Florence, to the present, carried on by usurers, military contractors, traders in offices, tax farmers, large merchants, and financial magnates."[47]

Stressing what he regarded as the difference between the two forms, Weber noted that:

"To the English Puritans, the Jews of their time were representatives of that type of capitalism which was involved in war, government contracts, state monopolies, speculative promotions, and the construction and financial projects of princes, which they (the Puritans) themselves condemned."[48]

Using this distinction, Weber wrote, and convinced himself that Western Capitalism is:

"(A) rational industrial organization attuned to a regular market and neither to political nor irrationally speculative opportunities for profit."

Max Weber was an objective observer, a careful scholar and theorist and a transmitter of much valuable information, but the observed facts during the passage of time since his death in 1920 have stamped this view of capitalism as a kind of "Tooth-Fairy Capitalism" - a pleasant fiction.

Had Weber lived fourteen years longer through the roaring twenties, the crash, and the Great Depression that followed (see Chapter 20), he would probably have admitted that those disasters were not isolated financial dealings, but involved the whole capitalistic economies of entire nations, especially their ruling financial and political establishments.

Had Weber observed the destruction of World War II, he might have concluded that the representatives of the old capitalism were still very influential, and sometimes in the driver's seat. He could not be expected to foresee how international organizations such as the IMF would act as enforcement agencies for "lending" institutions (see chapter 23). With the benefit of such facts, Weber might have redefined parts of his thesis, or changed its emphasis. Though already ill, his participation as an observer at the infamous Versailles Treaty negotiations after World War I probably hastened his death at an early age.

It is now clear that "Capitalism" as we know it is a different animal from the form of benign industrial organization Weber was describing. It is a creature which visibly dominates all industry and is based on usury as defined in this chapter - a structural misuse of the monetary mechanism.

Weber didn't foresee the likely if not inevitable outcome of any serious contest between his two "capitalisms," or how "Pariah Capitalism," if unchecked, could act over time to assert its dominance. That it would not be seriously checked was assured by the deification of the Bible in the West, a process that continues to this day in America. *In short, Weber did not fully appreciate the degree of power the private money issuing privilege concentrates in the hands of those who hold it.*

Weber says explicitly (in his footnote 12) that he has not underestimated the significance of the "pariah" capitalism. But world events show that he did underestimate the monetary power - the essence of pariah capitalism. In fact, he does not specifically discuss the money issuing privilege in *The Protestant Ethic and the Spirit of Capitalism*, his most widely read work. For that reason, and since that process is one of the main focus points of this book, this treatment of Weber has been kept sharp, though some objections were raised for the German language edition. It is understood that he was truly a great social scientist.

It may be convenient to teach Weber's now outdated definition of capitalism in American schools, but as we enter the 3rd Millennium perhaps it is time to drop this children's version so popular with bankers and their apologists and examine the money and banking systems for what they really are.

In summary, economics attracted the sustained attention of the Church's greatest intellectual talent. Their insistence on a morally based business structure, and their focus on the problem of usury, raised earlier by Aristotle, probably spared later medieval European society the kind of ruin encountered by both Greece and Rome, in that regard.

The complex logical structure which the Scholastics erected condemning usury was damaged by Martin Luther who adopted an over-simplified, unworkable ban on taking interest. But it was Calvin who destroyed and cast their work aside. Luther attacked and blamed the Jews; Calvinism elevated them and Deified the Bible.

The task of examining these concepts and questions is made much more difficult by our present day preconceptions. It should be clear enough, however, that neither of the simple "answers" are correct. Neither a complete ban on interest, mistakenly attributed to the Church, nor a laissez-faire approach would be correct in principal, or workable in practice.

Nor is the solution some halfway mixing of these extremes. The question is complex and must be dealt with intelligently. Helping to identify the correct monetary approach to this question is a central theme of our work. Understanding the monetary concepts presented here is a pre-condition for resolving the usury problem.

We saw that Calvin's bibliolatry, his deification of the Bible as the absolute word of God, set in motion forces that still afflict us, especially in modern day America. The destructive effects of this Bible worship are visible in political discussions, especially, for example, on talk radio. To hear the voices of ill educated men and women confidently airing insane views, must rank among the most demoralizing things that the good intelligent youth of this nation endure daily.

In leaving the Scholastics, we especially note their inability to understand the monetary importance of bank created credits. Thus later thinkers and legal systems, looking back to the scholastics for guidance, did not properly understand and limit the use of bank credits as money. Society continues to pay the price for that major oversight; but we make proposals in Chapter 24 to rectify it.

## *Notes to Chapter 7*

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[2] Odd Langholm, *The Aristotelian Analysis of Usury*, (Oslo: Universitetsforlaget, 1984).

[3] Bernard Dempsey, *Interest and Usury*, (London: D. Dobson, 1948), pp.143-50.

[4] as quoted by Langholm, cited above.

[5] John Noonan, *The Scholastic Analysis of Usury*, (Harvard Univ. Press, 1957), pp. 171-8.

[6] Noonan, cited above, Ch.1.

[7] Sydney P. Homer, A *History of Interest Rates*, (Rutgers Univ. Press, 1963), pp.53-56.

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[9] as quoted by Noonan, cited above, pp. 60-76.

[10] as quoted by Noonan, cited above, pp. 42- 44.

[11] Noonan, cited above, p. 49.

[12] Henri Pirenne, *Medieval Cities*, transl. F. D. Halsey,(Garden City, NY, Doubleday Anchor, 1956), p. 88.

[13] Noonan, cited above, pp. 58-65.

[14] Langholm, cited above, Chapter 3.

[15] As quoted by Langholm, cited above, p. 165.

[16] As quoted by Dempsey, cited above, p.8. The full name of Wicksell's book is *Interest And Prices (Geldzins Und Guterpreise)*, 1936, translated by R. F. Kahn, and published by A.M. Kelley Reprints, in 1962, in the author's preface starting on page xxvi.

[17]Noonan, cited above, p. 35.

[18] Page 381, decree 16 of *De Vie, Letterae Monitariae*, in *Migne, Theologiae Cursus Completus*, Cal.1081, as quoted by Noonan, cited above.

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[20] Grisar, cited above, pp.89-91.

[21] Nelson, cited above, pp. 30-50, from *Luther Werke*, Wermaier Ausgabe, XLVII, pp. 325-424, & XLVII, pp. 492-4.

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[23] Hilaire Belloc, *Cromwell*, (New York: Putnam).

[24] John Calvin, *Institutes*, transl. John Allen, (Philadelphia Presbyterian Board of Publications, 1813), p. 91.

[25] *Institutes*, Book 2, Chapters 2, 6.

[26] *Institutes*, pp. 369-71

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[29] Brooks Adams, *The Law of Civilization and Decline*, (New York: Alfred Knopf, 1943), pp.202-05.

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[38] R.H. Tawney, *The Acquisitive Society*, (New York: Harcourt Brace, 1920), p.198.

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[40] Frederick C. Grant, *The Gospels-their Origin and their Growth*, (New York: Harper & Row, 1957), p. 8.

[41] Werner Sombart, *The Jews and Modern Capitalism,* trans. Epstein, (New York: Free Press, 1951), p. 192.

[42] Sombart, cited above, p. 250.

[43] Sombart, cited above, p. 11.

[44] Sombart, cited above, p. 13.

[45] Milton Friedman, *Capitalism And The Jews*, in *Morality Of The Market*, edited by Block, Brennan and Elzinga, (Vancouver, B.C.: Fraser Institute, 1985).

[46] Max Weber, *The Protestant Ethic and the Spirit of Capitalism*, transl. by Parsons, (New York: Scribners, 1958), p. 271, (footnote 58).

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[48] Weber, cited above, again p. 271, (footnote 58).

# CHAPTER 8

# 1500 - HISTORY'S PIVOT: Power Shifts from the Mediterranean to the North Sea

The twin discoveries of America and the Cape Route -
"The two most important events of economic history"
Adam Smith[1]

The Calvinist Reformation evolved in a manner that shattered the universality of Christendom and began to alter what was considered acceptable behavior in human relations, especially financial activity. Its seeds took root mainly in northwest Europe where it was nurtured by the effects of two epic discoveries.

The Knights Templar had dominated European economic affairs in the 12th and 13th centuries thanks to their financial innovations and their strong trading links with the East, including the gold/silver ratio trade. The 16$^{th}$ to 18th centuries would be dominated by forces set in motion by two navigational feats of the Portuguese Knights of Christ, achieved in their efforts to capture control of this crucial East-West trade.

Portugal's ruler, Prince Henry The Navigator(1393-1460), and Columbus were members of that Knighthood, which advanced the art of navigation and map making. Columbus' voyage to America in 1492 and Vasco De Gama's completion of the route to India around the African Cape Of Good Hope in 1498 became of overriding geopolitical importance. *Both discoveries resulted from attempts to engage in the gold/silver ratio trade with the East and to establish an advantageous position in the spice trade.* These discoveries diverted control over the East-West trade from the Mediterranean to northwestern Europe and shifted the balance of European power to the North Sea area.

*8a.* **Portuguese Prince Henry The Navigator's (1349-1460) passionate support of exploration and map making led to the development of the Cape of Good Hope route to India, where Portugal tapped into the Eastern gold/silver ratio, cutting Venice out of the trade, and shifting the balance of European power from the Mediterranean to the North Sea.**

Opening the Cape Route to the East gave Portugal control of the gold/silver ratio trade and the spice trade, making her a great power in Europe for several decades.

Columbus' voyages to the West led to the plunder of vast amounts of gold and silver from the Americas, which overshadowed European supplies. The abundance of these metals had profound effects on Europe's money systems forcing great structural changes in her economies and creating a "Renaissance of the North." *The Reformation is usually given the credit for the dynamic developments this influx of new "money" helped create in northern Europe by causing men to place more value on worldly achievements. But Venice and others had been doing that for centuries;* and these two great discoveries had been made after all by Catholics under arrangements sanctioned by the Popes.

# THE PLUNDER OF AMERICA

"Is there a price of blood...Is there a price of anguish, of life, of death, of the extinction of races and of their inheritance of experience, invention, law, religion, and moral code?"

Alexander Del Mar

"The barbarities and desperate outrages of the so-called Christian race, throughout every region of the world and upon every people they have been able to subdue, are not to be paralleled by those of any other race, however fierce, however untaught, and however reckless of mercy and shame, in any age of the earth."

W. Howitt[2]

As the Reformation reduced the power of the Catholic Church in Europe, the Church's hierarchy, while professing to view mankind as a brotherhood in Christ, condoned terrible crimes against humanity in the slaughter of untold millions of South American Indians (to say nothing about the church's treatment of Galileo and of Giordano Bruno). The instruments of the genocide were the conquistadors sent by the Spanish Crown to loot gold from them.

## PAPAL BULLS CONDONED GENOCIDE

Pope Nicholas V had made it clear enough in 1450:

"We after scrupulous reflection, are granting by our Bull full and entire freedom to King Alphonso to conquer, to besiege, to fight, and to submit all the Saracens, Pagans, and other enemies of Christ, wherever they may be; and to seize the Kingdoms the Dukedoms, the Princedoms, the Lordships, personal properties, landed properties, and all the wealth they withhold and possess; and to submit these persons to a perpetual slavery; to appropriate these Kingdoms, Duchies, Principalities, Counties, lordships, properties and wealth; to transmit them to their successors; to take advantage and make use of them personally and with their offspring."

In 1493, Pope Alexander VI issued the Inter Caetera Bull dividing the world into spheres of Portuguese and Spanish influence. The West was awarded to Spain and Africa and the East went to Portugal:

"And in order that you may enter upon so great an undertaking with greater readiness and heartiness endowed with the benefit of our apostolic favor, we...out of our own sole largess...and apostolic power by the authority of Almighty God...should any of said islands have been found by your envoys and captains, give, grant, and assign to you and your heirs and successors, Kings of Castille and Leon, forever, together with all their dominions, cities, camps, places, and villages, and all rights, jurisdictions, and appurtenances, all islands and mainlands found and to be found, discovered and to be discovered to the west and to the south..."

## COLUMBUS' GOLD FEVER

Columbus' expedition was searching for a western route for Spain to engage in the gold/silver trade with China and Japan. The subject of gold quickly arose:

"The first Indians he met with had some few gold ornaments about them. Poor wretches, if they had possessed the slightest gift of prophecy they would have thrown these baubles into the deepest sea! - and they were asked whence came this gold?" wrote Sir Arthur Helps.[3]

Columbus' contract with the Spanish Crown gave him one-eighth of the spoil of the voyage and one of his first suggestions to Spain was to enslave the Indians. The Monarchy eventually acquiesced in his request as it did to most of the demands of the conquistadors. This Monarchy embodied strange contradictions. While it was truly concerned with the religious conversion of native souls, it was brutal in its quest for gold.

The Conquistador's atrocities on the Indians became routine. They butchered, murdered, raped, hanged and burned them, usually on the initiative of the local conquistador operating within contracts structured by the Church's legal talent, which were licenses to murder. The instruction from the Crown was literally:

"Get gold: Humanely if you can, but at all hazards get gold; and here are facilities for you."[4]

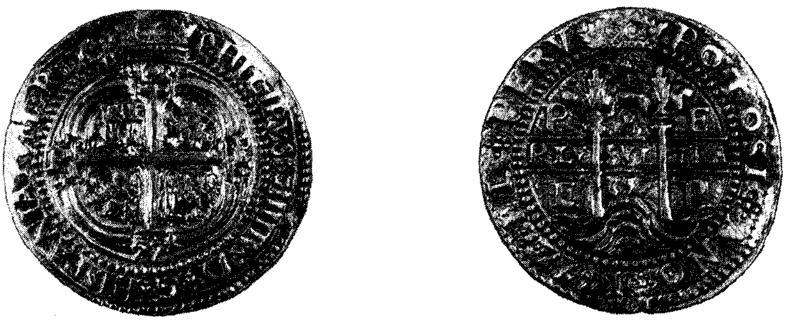
The peaceful Indians reacted ineffectively to the aggression, usually trying to co-operate with the invaders, who were often viewed as fulfilling an Indian prophecy of the coming of white gods. When Columbus' demands in Hispaniola (Haiti) became unbearable, the Indians stopped planting food, even for themselves, in an effort to starve out the Spanish conquistadors. But the atrocities went on for a century. According to Abbé Reynal, when the English pirate Drake captured San Domingo in 1586 he learned from the few survivors of what had once been a populous country that, rather than become the fathers of children who might be subjected to the treatment which they had endured, they had unanimously refrained from conjugal intercourse."[5].

Sir Arthur Helps in *The Spanish Conquest of America,* estimated the original Indian population under Spanish control at 32 million souls and

*8b.* **Monarchs Ferdinand and Isabella of Spain somehow combined piety and a true concern for the souls of native Americans with very bloody policies, leading eventually to exterminations estimated in the millions.**

that *within less than 40 years the Spanish conquistadors destroyed 15 million of them, mainly by working them to death in silver and gold mines.* For example, at a mine near Mexico City:

"Motolina affirms that for half a league round it, 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."[6] One of the great killing fields of Peru was the great silver mine at Potosi, discovered in 1535.



*8c.* **Silver coin of 8 Reales, minted at Potosi, Peru, in 1657. A good example of what Del Mar called a "crime stained" money.**

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THE "REQUIREMENTO"

The conquerors were legally required to recite the "Requiremento" to any Indians they were about to slaughter:

"On the part of the King, (and)...Queen...we their humble servitors hereby...make known to you that the lord our God, living and eternal, created the Heavens and the Earth, and also one man and one woman, of whom you and we, and all mankind...are descendants...in the 5,000 years since the world was created...

"Of all these nations God gave the charge to one man - St. Peter...that he should be the head of all the human race...This office of St. Peter was called Pontifex Maximus, or the Pope. One of these Pontiffs who succeeded St. Peter as lord of the world...made donation of these Isles...and all contained therein to the aforementioned King Ferdinand and Queen Juana as is shown in certain writings upon the subject, which writings you may examine if you wish...

"We ask and require you that you do consider what we have said to you and that you take the time that shall be necessary to...deliberate upon it, and that you do acknowledge the Church as the Mistress and superior of the whole World, and the high priest called the Pope, and in his name and stead the King Don Fernando and Queen Donna Juana, as superiors and lords and Kings of these Isles and terra firma...

"If you do so, you will do well...But if you do not do this...I certify to you that with the help of God we shall forcibly enter into your country and shall make war against you in all ways and manners that we can ...and shall take you and your wives and children and shall make slaves of them...

"And we shall take your property, and shall do you all the injury and damage that we can...and we protest that the deaths and losses which shall accrue from this are your fault...and to prove that we have proclaimed this to you...the Imperial Notary...will affix hereunto his certificate in writing."

The "Requiremento," which had been framed by the famous jurist Palacias Rubios, was normally read in Spanish to the trees, or mumbled by the attacking army. In one case it was actually translated to an Indian ruler, Atahualpa of Peru, in 1532:

"[Atahualpa] wondered, after seeing that the Spaniards possessed glass, which he considered far more desirable than gold, why they had come so far and behaved so ill, for comparatively useless materials like gold and silver."[7]

"Pizarro's Priest Vicente De Valverdo read the 'requiremento' to Atahualpa. After hearing it he said 'Your Pope must surely be a most extraordinary man to give so liberally of what does not belong to him.' He asked Vicente where he got his title to command of the Earth. 'In this book' replied the monk, presenting his breviary to the Emperor. Atahualpa took the book, examined it on all sides, fell a laughing and throwing it away added 'Neither this nor any other writing conveys a title to the Earth.'"[8]

Pizarro murdered Atahualpa as soon as the Inca leader had a room filled with gold for his agreed upon ransom; totalling 185,000 ounces.

Only in Chile did the conquistadors encounter a race that was able to withstand them. They were called the Arucanians and appear to have been culturally connected to the Egyptians for they venerated a "genius" of war called Epon-Ammon. These Arucanians despised superstition and had no temples or priests. It took the Spaniards almost 20 years to subdue them. But they reasserted their independence a few years later in 1553, captured the Spanish leader, and eloquently put him to death by pouring molten gold down his throat!

ABORIGINAL AMERICAN MONEYS

According to Del Mar, at the time of the European discovery of America the use of money was limited to four Indian nations - all in South and Central America: the Mexicans, Peruvians, Chimays, and Cibchas. Although all of them had gold and silver, none used them for money. In Peru gold was so abundant it was sometimes used for tanks, water pipes and even planking. The native Mexicans used chiseled copper and cocoa beans for money; with cocoa production being a Royal monopoly. One modern description of Mexican Indians using gold as money was, in our view, more as a medium in bartering. Montezuma's gold treasure was kept mainly in the form of exquisite artwork, not coins or bullion.[9]

BUDDHIST INFLUENCE IN PRE-COLUMBIAN AMERICA

Del Mar observed that before the conquest the Mexican money system counted in twenties:

20 cocoa beans = 1 olotl
20 olotl = 1 zontl, and
20 zontl = 1 xiquipili.

He attributed this to the influence of a Buddhist missionary expedition to Mexico in 488 AD.[10] The habit of counting by 20s had existed in ancient India. In the Yucatan, the xiquipili or Xiqui was represented by a chiseled copper tool money form in the shape of a knife about 4 ½ inches long and 1/12 inch thick. Del Mar also noted the similarity of the Mexican term xiqui to the ancient Indian money denomination zicca, or sicca.

CONQUISTADORS IN NORTH AMERICA

Spain also penetrated deeply into North America. Cortez, searching for the fabled Seven Golden Cities of Cibola, reached as far north as Sante Fe, New Mexico, the oldest city in North America. Many fabulous stories are told in connection with those expeditions.

Alexander Del Mar, in his first assignment as a mining engineer in the mid 1800s at Salisbury, North Carolina, 25 miles south of Winston Salem, had found "a number of Spanish relics such as spear heads, horse shoes, etc, of ancient types, picked up near the gold placers of Salisbury, [which] testify to the presence of the early gold hunters much farther north than they are commonly supposed to have ventured."[11]

This area was not productive for the Spaniards. Later it produced about $10 - 20 million in gold between 1824-49, and was recently reactivated in the 1980s in the Piedmont area. Had they found easy-to-work gold or silver mines in North America, we Americans would probably all be speaking Spanish now (instead of just half of us!).

Before the Spaniards actually began mining operations in South America, they had seized about £8,000,000 worth of existing gold and silver objects. They set up the first mint in America at Mexico city in 1535. The total loot from America is estimated at 1,230 tons of gold and 60,440 tons of silver, between 1493 and 1690; but only a part of it ever reached Spain.[12]

EUROPEANS RAIDED SPANISH SHIPPING

While Spain did the "dirty work" on the ground, England and Holland adopted a simpler strategy - they hijacked the Spanish ships bringing the gold and silver back to Europe. Judging from the rise in prices in England and Holland, very large amounts of metals were intercepted. The British Crown gave charters to pirates, calling them privateers.

The Dutch West India Company was established in 1623 specifically to rob the Spaniards. The Company's initial capital was 7 million Florins; one half million of it from the King and Queen; about 3 million was held in Amsterdam and the remainder throughout Holland.

Piracy was profitable: in its first 13 years the company equipped 800 ships costing 54 million Guilders. During that period it captured 540 ships with 72 million worth of cargo and stole another 36 million from Portuguese colonies. Its high point was in 1627 when Piet Hein seized 22 out of 30 ships of a Spanish silver fleet, taking 11 to 15 million Guilders. This yielded a 50% dividend on the company's stock.[13]

The West Indies Company became an important factor in the slave trade. According to Barbour:

"Of great interest to Amsterdam was the contract for supplying Negro slaves to the Spanish colonies of America. Curacao was the point of delivery by the company. From 1650 to 1700, Amsterdam seems to have been the business headquarters of the slave trade, and contracts for deliveries of Negroes were drawn up there."[14] Herbert Bloom, in the *Economic Activities of the Jews of Amsterdam* noted that the "Slave trade was one of the most important Jewish activities here [Surinam] as elsewhere in the colonies."[15]

From 7 to 18 million slaves were brought to South America from Africa; about 400-500,000 were brought to North America.

## THE RENAISSANCE OF THE NORTH

The inflow of gold and silver, especially to northern Europe, helped to forever shift the balance of power from the Italian city states on the Mediterranean to the cities of the North Sea.

Jacob estimated that in 1492 the precious metals stock of Europe was 35 million English Pounds, about 1 pound per person or approximately $5, based on the dollar's value in 1900.

He estimated that by the end of 1599 the total European money supply was 87 million Pounds; after taking into account the wear and tear on coinage, and the vast amounts sent to India and points east. By 1699 he estimated the available stock of precious metals in Europe at £287 million. Although the rate of growth of the money supply was much higher in the second hundred years, it did not produce as much inflation as the first hundred, for commerce was growing rapidly, more easily providing new goods and services; and the population had increased by 50% so that a greater money supply was needed.

As this flow of precious metals into Europe increased the money supply, the economic effects were dramatic. Commerce was stimulated as never before. Industry began to develop and thrive. The population began growing dramatically. *Wealth began to be distributed over a much larger portion of the population as wages rose faster than other prices.*

In the north, "industrialists" were able to buy land. Books on proper farming technique appeared. Mechanical devices such as saw mills, spinning wheels, and the steam engine were invented. This renaissance has been mistakenly attributed only to the Reformation!

The growing money supply shook up the financial establishment of Europe, which was unhappy to see the relative value of wages rising. William Jacob estimated that in France between 1492 and 1589 prices rose 470%. Actual stated prices rose over 700%, but the coinage had also been getting lighter. Jacob based his calculation on a list of 18 commodities such as rabbit, herring, candles, wine, wheat and oil.[16]

In England, using the Oxford Tables, he found a 400% increase in corn prices and about a 500% increase in general prices. Jacob emphasized that at no time was this price increase a great shock or acceleration, but was spread over the period.

*Thus, from 1500 to 1600 gold and silver lost over 80% of their value, never to recover it. The present-day "gold is money" faction does not appear to be aware of this fact.*

THE CURIOUS EFFECT ON SPAIN

While the effect of the precious metals imports created a "renaissance of the north," the effect on Spain was, if anything, negative. In two sentences: Spain plundered the Americas and mainly enriched her "Nobles." Europe plundered the Spaniards and mainly enriched the people.The monetary historian W.A. Shaw wrote:

"[Spain] produced little, and manufactured less, and the ill-gotten, blood stained gain, which flowed to her shores from America, served only to feed an impractical vanity and to further unfit the nation for manufacturing and commercial life...Finding she could purchase anything and everything with this gold and silver, she threw herself into her work of conquest, and let commerce go."[17]

This Spanish evidence provides additional support for the viewpoint that money is not productive capital. The mis-definition of money thus has nation-shattering consequences.

Gonzalez De Cellorigo summed it up in this way:

"The cause of the ruin of Spain is that riches ride on the wind and have always so ridden, in the form of census contract deeds (see Ch. 7), or bills of exchange, of silver and gold, instead of goods that bear fruit and which because of their greater worth, attract to themselves riches from foreign parts; and so ruin our inhabitants. We therefore see that the lack of gold and silver money in Spain is that there is too much of it and Spain is poor because she is rich. The two notions are truly contradictory but while they cannot be properly joined together in one proposition, we must consider them both true in the case of our Kingdom of Spain."[18]

Cellorigo's two notions are harmonized when one considers that the riches were concentrated in the hands of the Spanish aristocracy.

Thus the democratization and wider distribution of wealth in the north led to increased industry and prosperity, while the increased concentration of wealth in Spain led to stagnation and relative decline. In Spain the Nobles piled up more silver and gold plate in their closets and basements, and in financial instruments.

The concentration of wealth in different epochs is often different as to its causes, but generally similar in its negative effects. *Again we see that it is not simply the amount of money in existence that influences* *economic activity - it must be widely distributed to achieve good results.*

ABUNDANCE OF PRECIOUS METALS RETARDS MONETARY THOUGHT

We noted in Chapter 4 that Naples and Venice had begun using milled copper coinage, the Bagattini and the Cavalli for smaller transactions in 1472 and 1473. However, the plunder of the precious metals from America retarded the development of money systems and thought away from Nomisma and backward to commodity money, which is essentially just an advanced form of barter.

"[The] Conquest of the New World arrested the re-growth of the classical conception of money and instead developed the feudal concept into a more monstrous form," wrote Del Mar.[19]

The classical concept of money was abstract, as an institution of law, often abused, but designed to equitably measure the exchangeable relation of commodities and services. In the feudal concept money was an actual concrete thing - a coin designed to measure an imaginary or abstract thing called value. By "Classical" Del Mar was of course referring to Aristotle, not to Adam Smith's misnamed "Classical School."

A CHANGE IN THE GOLD/SILVER DRAIN TO THE EAST

The precious metals continued to flow eastward. In the 16th century, the ratio of gold to silver in India was still ranging between 6 and 8 to 1, while in Europe it varied between 10 and 14 to 1.

M. Forbonnais estimated that from 1492 to 1724 one half of all the gold and silver that came to Europe from America had been absorbed by the Levant, the Indian, and the China trade. M. Gerboux made a slightly higher estimate and Von Humboldt thought it was two thirds. Jacob thought that about 40% flowed to the East.[20]

In the late 1600s John Locke, analyzing this transfer of metals eastward, mistakenly concluded that:

"The European world would not be at all enriched by the discovery of the Spanish West Indies were it not for the trade we carry on in the East."[21]

In Locke's view, only by exporting the metals to the East for luxury items was any benefit derived. But this ignored what was happening regarding the greater distribution of economic power. Locke was able to encompass the brutal slaughter of millions and the theft of their heritage in the innocuous phrase "the discovery of the Spanish West Indies."

Were there no limits to Locke's "Toleration"?

The amounts being plundered from the American Indians were so immense that a change was starting to occur. Even after the East drained vast amounts of gold and silver, there was still enough money left circulating in Europe to stimulate industrial production. Europeans could obtain more goods produced locally rather than in the East, so that the merchandise component of the East-West trade became a decreasing drain on money sent from west to east. With the buildup of "capital" in the west, a growing part of any usury element of the drain would also remain in the West.

## A "CRIME STAINED" MONEY SYSTEM

How Europe obtained its new supply of precious metals - its money supply - shouldn't be ignored. In 1902, Del Mar, in *The History of Precious Metals* estimated:

**"About 1/2 the existing stock of precious metals was obtained through conquest and slavery."**

This connection of gold and silver money to genocide is fascinating. Even in the 19th century in the United States, the California gold rush of 1849 led to the worst slaughter of Indians in our nation's history. E.D. Townsend's book on that event relates that 80% of the California Indian population disappeared. In 1848 they numbered 150,000 and in 1870 there were under 30,000.

As in Charlemagne's time, using precious metals money depended on plunder, theft and murder on a grand scale. This vicious activity reduced the value of all who labored:

"The value at which this crime-stained metal has entered the exchanges of the world keep down the value of the portion produced by free labour; so that the latter is sold to the minter at less than its average cost," wrote Del Mar.[22] In fact such slavery has reduced the value of all free labor, not just that engaged in mining.

Yet the Adam Smith school, squatting comfortably in their counting rooms, blandly asserted that the value of gold and silver money was based on the cost of production. Del Mar challenged them, noting that none of them ever bothered to check the cost of production, as he had. He asked:

"Is there a price of blood...Is there a price of anguish, of life, of death, of the extinction of races and of their inheritance of experience, invention, law, religion, and moral code?"[23]

Without this anchor of the price of production determining the value of money, the monetary theories of the Political Economists and their whole theoretical basis is set adrift and sinks. Then the role of the law in creating the value of money must be recognized.

# THE CAPE ROUTE SHATTERS TRADE RELATIONS

"You will soon hear great news...now spices will go from Portugal to Alexandria instead of as hitherto from Alexandria to Portugal."

Amerigo Vespucci

CONTROL OF THE EAST-WEST TRADE MEANS POWER

From at least the time of Alexander The Great, whoever controlled the gold/silver ratio trade with the East was paramount in the West. We have seen how it consecutively benefited the Ptolemies, Rome, Constantinople, Venice, the Jews, and the Knights Templar.

After the 1307 suppression of the Templars, Venice once again dominated the ratio trade up till 1500 and was again paramount in Europe. Opening the Cape Route allowed Portugal to dominate trade with India and points east from the beginning of the 1500s.

Between 1565 and 1625 Portuguese traders stripped Japan of two-thirds of its gold, approximately 250 tons. Japan, valuing the gold/silver ratio at 6 to 1, was unaware that the ratio in Europe was high (15 to 1 at that time).

The Portuguese channeled the pepper trade through the city of Antwerp, which quickly became Europe's greatest trading port. Venice suffered the loss, and then Italy was repeatedly invaded from France, Spain, and Austria. The Cape Route also reduced Moslem economic power as a go between for Venice and India.

As fate would have it Amerigo Vespucci, America's namesake, was reputedly on the Isola Do Sol when remnants of a Portuguese Indian expedition were returning home in June 1501. Amerigo saw the significance immediately and wrote a letter to his former employer Pietro Di Medici, the Florentine banker: "You will soon hear great news from Portugal...now spices will go from Portugal to Alexandria instead of as hitherto from Alexandria to Portugal. Cosi va el Mundo!"[24]

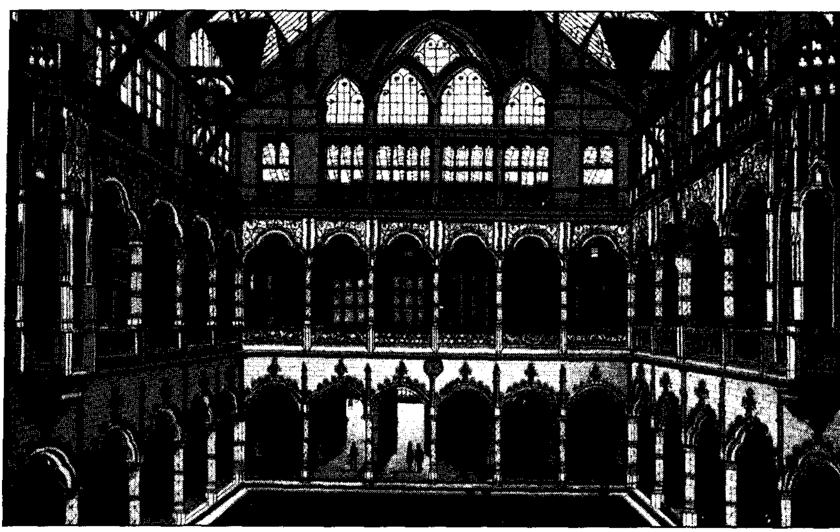
The Isola Do Sol is a tiny speck of an island among its even smaller Cape Verde companions. Their main activity today is the same as in the 1500s - a stopover point in the South Atlantic; though recently it was for Boeing 747s flying from New York to South Africa, rather than sailing ships. One can imagine Amerigo Vespucci's shock at making such a momentous discovery in such an out of the way outpost.

THE RISE OF ANTWERP TO COMMERCIAL SUPREMACY

With the opening of the Cape route, Antwerp exploded on the scene and "developed into a trading center such as the world had never seen before or since," wrote Ehrenberg.

"For most of the 16th century, Antwerp was the principal entrepot for the Lisbon pepper, whence it was redistributed to the various countries of northwest Europe. German and Italian merchant bankers, the Fuggers, the Affaitadi...competed with each other or else combined together to buy pepper and other spices from the Portuguese Crown...[They] were allowed to station their own representatives at Goa and Cochin in order to supervise the purchase and shipment of the spices for which they had contracted," wrote C. R. Boxer.[25]

The Kingdom of Portugal had been created by Burgundian Knights during the Christian re-conquest of Spain. How did little Portugal gain



*8d.* **The Antwerp Bourse was the first built in Europe after Portugal made Antwerp its staging area for the round the cape trade. Gresham negotiated loans there for England, and the London Exchange was later modeled on it.**

and secure her hold on this trade?

"The Portuguese immediately realized that they could only break [the trading relations of the Arabs and Indians] by brute force and not by peaceful competition. This they proceeded to do with complete ruthlessness and astonishing speed...They needed a few fortified harbors to serve as bases and commercial depots...The island of Goa was taken in 1510...Ormuz in 1515...Malacca in 1511...Portuguese naval supremacy on the east African coast was already assured by their construction of forts at Sofala (1505) and Mozambique (1507)."[26]

Their one failure was their inability to close the straits of the Red sea so some pepper continued to reach Venice through Alexandria. But the Portuguese initially took three-fourths of the Venetian pepper trade and also restricted her metals trading.

The King of Portugal, through Francesco Pesoa, his power of attorney in Antwerp, sold the cargoes as a whole to large syndicates who obtained a monopoly and concentrated trade in Antwerp to keep prices up.[27] Antwerp was a free port and by 1542 was becoming extremely well fortified. Even today you can see extensive sections of red brick fortifications that survived the bombardments of World War Two.

Today, these embattlements strike the visitor as strangely purposeless, for the port is now spread over perhaps a hundred square miles. Antwerp is still the greatest port in Europe when allowance is made for Rotterdam's large bulk oil shipments.

It was in Antwerp in the 1500s that Sir Thomas Gresham floated loans for Queen Elizabeth I. He later erected the London Exchange as a more or less exact copy of the Antwerp Bourse. In 1522 the Antwerp pawnbrokers asked for the City of London to be put up as collateral for a loan, but the English declined. Audacious as that sounds, in 1976 New York City was put up as collateral for loans to bail out the municipality.

## THE FALL OF ANTWERP AND THE RISE OF AMSTERDAM

Antwerp's dominance was to be short lived. When Charles V abdicated the throne of France in 1555, he gave his Netherlands possessions to his son Philip II of Spain. Philip's foolish taxation policies in the Netherlands sparked a revolt in 1565. Calvinism generally supported the revolt and Calvinists flocked to the northern Netherlands, which became Holland. The southwest sections, mainly Catholic, later became Belgium.

Antwerp's fortifications were not effective, for she is 80 miles from the North Sea, connected by the meandering Schelde river. In 1585, the Prince of Parma didn't attack Antwerp's wonderful battlements. Instead, he secured the mouth of the Schelde river and strangled her.

When Antwerp's port closed, about 19,000 of her merchants quickly migrated to Holland. Overnight, Amsterdam became the dominant trading capital of the north. Her position would not be as transient as Antwerp's was, for Amsterdam had been building an industrial infrastructure, largely in shipping, and was poised for dynamic growth.

In 1595 the Dutch rounded the Cape of Good Hope with four ships commanded by Cornelius Houtman, who had learned the route from the Portuguese. Six Dutch companies were quickly formed to engage in the trade. But the competition was considered destructive, and in 1602 they consolidated into the Dutch East India Company and were given the monopoly of the Eastern trade.

Trading in the East required the backing of force against the Portuguese; merchant ships could not venture there unarmed. However, once the Dutch entered the fray, their numbers would eventually overwhelm the Portuguese, who had only 300 ocean going vessels at the height of their maritime power. Portugal was also short of manpower. Most of her crews came from Africa or Asia and sometimes the captain was the only Portuguese on board.[28]

The Dutch warred with the Portuguese over the eastern trade from 1605 to 1665. They launched thousands of ships compared with less than 100 for the Portuguese in the same category. According to Boxer the Dutch navy had 250,000 sailors compared to the Portuguese's 4,000. Roughly one of every three Dutchmen would have been in the merchant marine.

But the Portuguese were well acclimatized to the east, offered better employment and less harsh trading terms. As a result it took the Dutch about 60 years to displace them and seize control over the East-West trade routes and the still important gold/silver trade.

In summary, the gold/silver ratio between East and West worked, in a way, like electric voltage. It provided a difference in potential to a circuit that could "run" all sorts of activity. It created so much desire to participate in the metals trade between India and Europe that it helped spur the voyages leading to the discovery of the Americas, and the Cape of Good Hope route to India, events that dramatically changed the world at the pivotal 1500 time period.

Control of the East-West trade moved from Venice to the North Sea area, shifting the relative power of Europe from Catholic to what would become Protestant lands.

That trade and the inflow of gold and silver from the plunder of the Americas sparked a "renaissance of the north." But instead of advancing monetary thought, the entrance into Europe of vast amounts of this "crime-stained money" actually retarded it.

### *Notes to Chapter 8*

[1] Adam Smith, *Wealth of Nations*, (1776. Chicago: Great Books, Encyl. Brittanica, Univ. of Chicago Press, vol.39, 1952), pp. 303-358.

[2] W. Howitt, *Colonialism and Christianity*, p. 9.

[3] Sir Arthur Helps, *The Spanish Conquest in America*, (London: John Parker & Sons, 1855), pp. 121-2.

[4] Alexander Del Mar, *History of Money in America*, (repr. New York: Burt Franklin Press, 1968), quoted on pp. 6-9.

[5] Alexander Del Mar, *History of Precious Metals*, (1902, repr: New York: A.M. Kelley, 1969), p.147.

[6] 1541 letter from Fray Toribio Motolina de Paredes, to Dan Antonio Pimental, as quoted in Del Mar, *History of Precious Metals*, cited above, p. 178.

[7] Del Mar, *History of Precious Metals*, cited above, p. 197.

[8] Del Mar, *History of Precious Metals*, cited above, p. 198.

[9] Del Mar, *History of Money In America*, cited above, Ch. 6 & 7. For the view that Mexican Indians used gold as money, see Don Taxay's *Money of the American Indians,* (Flushing, NY: Nummus Press, 1970), Part 1.

[10] Del Mar, *History of Precious Metals,* cited above, Chapter 6.

[11] Del Mar, *History of Precious Metals*, cited above, p. 153.

[12] Alexander Del Mar, *Money and Civilization*, (1867, repr., New York: Burt Franklin Press, 1969), pp. 102-105.

[13] Herbert Bloom, *Economic Activities of the Jews of Amsterdam*, (Port Washington, NY: Kennikat, 1935), pp. 120-37

[14] Violet Barbour, *Capitalism in Amsterdam in the 17th Century*, (Baltimore: John Hopkins Univ. Press, 1950), p. 110.

[15] Bloom, cited above, p. 159.

[16]William Jacob, *The Precious Metals*, (1831, repr. New York: A.M. Kelley, 1967), pp.68-195.

[17] W.A. Shaw, *The History of Currency 1252-1896*, (1896, repr. New York: A.M. Kelley, 1967), p. 107.

[18] as quoted by Thomas Guggenheim, *Pre-Classical Monetary Theories*, (Geneva: Graduate Institute of International Studies, 1989), Ch.2.

[19] Del Mar, *Money and Civilization*, cited above, pp. 209-10.

[20] Jacob, cited above, pp. 195-196.

[21] John Locke, *Essay on Money and Bullion*, (London: printed for B. Lintot, 1718), p. 10.

[22] Del Mar, *History of Precious Metals*, cited above, p. vi.

[23] Del Mar, *History of Precious Metals*, cited above, p. vi.

[24] as quoted by Alexander Von Humboldt, *Fluctuations of Gold*, (NY: Cambridge Encyl., 1900), p. 44.

[25] C.R. Boxer, *The Portuguese Seaborn Empire, 1415-1825*, (London:

Hutchinson, 1969), p. 61.
[26] Boxer, cited above, pp. 46-48
[27] Ludovico Guicciardono, *Antwerp the Great Market*, in *Discrittione Di Tutti I Passi Bassi, 1567,* translated by Pennock.

# CHAPTER 9

# THE RISE OF CAPITALISM IN AMSTERDAM

**"The Bank of Amsterdam's most vital feature was that it was a civic and not a privately owned or managed institution."**
**Jonathan Israel**

Amsterdam in the 1600s was a remarkable time and place in world history. She wrested control of the India trade from Portugal, developed Europe's most powerful financial markets, and laid the exact foundations of modern capitalism.

Fishing income was the backbone of Holland's commercial rise. By 1636 her fleet numbered 2,300 - 2,500 ships, plus 2,000 herring fishing boats. The Dutch ship the "Flute" was the leading merchant vessel of the day, surpassing the Hanseatic's Cogge in both speed and ease of operation. Dutch technology also excelled in preserving the herring catch.

Holland's bulk fish trade made it easy to carry along additional low bulk luxury items when the opportunity arose. The Dutch fleet became the carrier of the North as Venice was in the South. The completion of Holland's sea works gave her the ability to flood the country in an emergency - a great strategic value.

Amsterdam sprang to the fore with the closure of Antwerp in 1585:

"Foreigners observed Amsterdam's rise to supremacy in world trade with surprise not unmixed with resentment. Suddenly as it seemed, the city was there."[1] At the time there were 1.5 to 2 million Dutch; 6 million English; and 20 million French.

Zaandam became Europe's premier shipbuilding center. Holland could produce competitively even after importing raw materials. Warehouses were as important to Dutch success as ships "and may have represented a comparable investment of capital...They bought at seasons when prices were lowest and stored the merchandise to await a sellers market," wrote Barbour.[2]

### DUTCH INTELLECTUAL FREEDOM

Intellectually, Holland was as free-thinking a community as existed at the time. Jacobus Arminius, the Dutch theologian, proclaimed the doctrine of free will, religious toleration and natural law, in opposition to the Calvinist doctrines of predestination and the state enforcement of religion. Jacobism became a symbol of free thought throughout Europe for centuries. The Calvinists allied with the Orangists (William I of Orange) against Holland's republican confederation and overthrew Holland's republican constitution by 1619.

Holland had three great Universities: at Leyden, Utrecht, and Franeker. Many early political economists spent years in Amsterdam including William Petty and John Locke. William Paterson lived there before founding the Bank of England. Dutchman Matthew Decker was said to have influenced Adam Smith. The small cult that was to form the Pilgrim's Mayflower expedition spent some years in Dutch exile before setting sail for New England.

Amsterdam was also home to the great jurist Grotius (b. 1583), who developed the doctrine of Freedom of the Seas, and the philosophers Descartes and Spinoza in the mid 1600s.

# THE BANK OF AMSTERDAM

The Bank Of Amsterdam is the world's best known deposit bank, though it is usually misunderstood. The main source we have on this bank's history is J.G. Van Dillen's *History of the Principle Public Banks.*

### ORIGINS

Some of the Jews emigrating from Antwerp (see p. 234) had set up an exchange banking operation, a "wissell bank," changing money and discounting bills of exchange, taking deposits and making loans. Exchanges were disorderly with high and widely varying rates. Still, Amsterdam's merchants affirmed their need for a banking institution.

The city' fathers stepped in and created the Bank of Amsterdam in January 1609 and forbade the Jews and all others from engaging in banking:

"Simon Lus had been operating banks in Amsterdam probably from 1602...When around 1608-9 he asked the Amsterdam Burgomasters to allow him to continue operating his Amsterdam branch, they demanded a list of his creditors..." wrote Herbert Bloom.[3]

"The principle reason for setting up [the Bank of Amsterdam]...was not to provide credit but to prevent unscrupulous money changers ruling the course of exchanges for all places and to provide fast efficient and reliable exchange facilities. ***The Bank's most vital feature was that it was a civic and not a privately owned or managed institution,"*** wrote Jonathan Israel.[4] In theory it was not a bank of issue, was not supposed to make loans and was considered a precious metals system.

The city required that all bills of exchange above 600 Florins (later 300) had to be changed at the Bank, effectively monopolizing money changing in the bank's hands. Clients' accounts at the bank could be credited with the deposit of coinage or by a transfer from the Bank. Accounts could be debited by withdrawing coinage, but mainly by transferring it to another account at the Bank.

No interest was paid and no overdrafts or loans were made. The Bank did not discount bills - that is, accept bills on other institutions or merchants at a discount, and then send them for collection.

Deposits at the bank could not be attached. The City itself was responsible for the deposits. The management of the bank was in the hands of a board of three commissioners elected by the town council with the Bank's main vault under City Hall. The cashier side of the business - crediting and debiting various accounts - was conducted free of charge (until 1683). The bank made profits on money changing and gold and silver purchases, charging up to 2.5%. It was responsible for supplying the city mint with gold and silver bullion.

*All profits of the Bank belonged to the City of Amsterdam. The message to merchants was clear: make profits in commerce and industry, not by money-changing games or picking and culling or clipping the coinage.* And the Bank helped them earn money, removing one of the uncertainties in trade - the quality of payment. If a merchant was paid by a transfer at the Bank Of Amsterdam for so many gold florins, he needn't examine the coins for authenticity or full weight. The Bank guaranteed this, and in accepting coinage from depositors took care that such deposits were in acceptable form. Apparently the bank did not use checks; clients had to go to the bank to make transfers to other accounts.

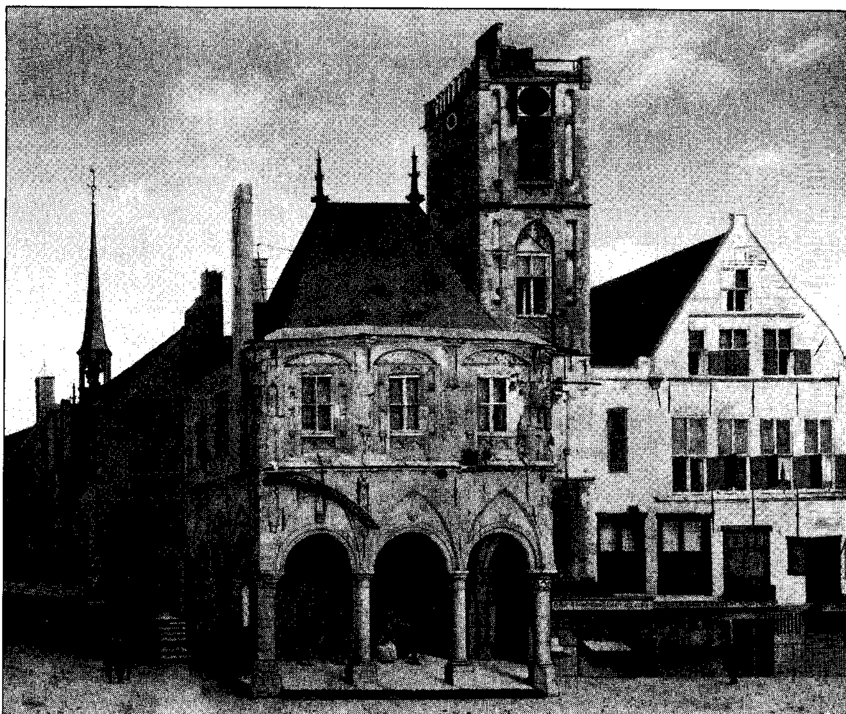
The Bank thus removed any temptation - or possibility - to clip Dutch coinage, automatically promoting commerce and discouraging domestic usury - the misuse of the money system.

THE AGIO

Payment through the bank was so convenient that for most of its history Bank money was at a 4 to 5% premium over coins; and coinage ceased to circulate in Amsterdam. This premium was called the "agio," from the Italian "vantagio" - advantage.

The Bank attracted large deposits from all over the Netherlands. In 1611 there were 708 depositors, with 925,000 Florins deposited. By 1701 there were 2,698 depositors with 16,280,000 Florins deposited.

The Bank generally separated credit from banking with very good



*9a.* **The Bank Of Amsterdam was publicly owned by the city of Amsterdam with its vault in the basement of the old Town Hall. The control and profits of banking belonged to the city.**

results and prevented the money changing classes from turning into bankers as they were to do in England.

The Bank made three exceptions in granting overdrafts: to the City of Amsterdam; to the Dutch East India Company (*abbreviated* DEIC); and to fund a city loan bank, the Bank Von Leening in 1614. Some observers claim that this bank was a bank of issue, creating money. However if that were the case its size and scope were small.

The overdrafts to the City began in 1624. At first Amsterdam paid interest of 3 to 4% on its debt to the bank, then reduced it to 0% when they realized they were paying interest to themselves. By 1685 the city owed the Bank 2,976,000 Florins. They subtracted the accumulated earnings the Bank had made, which amounted to 2,340,000 Florins, leaving a net debt of about 600,000 Florins. This provides an example of how monetary and banking operations have been used to help finance government.

*But the large secret overdrafts to the Dutch East India Company changed the nature of the bank into a covert bank of issue. It was really a mixed system of precious metals and bank credits, pretending these two were the same.* These overdrafts began as early as 1615 but caused no difficulty for over a century until the 4th Anglo Dutch war in 1780:

Holland's fleet had suffered defeats and war losses threatened the DEIC's existence. The Company had been allowed 7.5 million Florins in loans based on a pledge of its bonds, guaranteed by the States of Holland. During this war, loans had also been extended to Amsterdam's Municipal Loan Chamber to avert the ruin of Amsterdam's commerce. By 1784 neither were in a position to repay and in 1790, 181 years after its founding, for the first time the "agio" on bank Florins went to a discount to coinage.

Now people wanted coinage instead of Bank money. The Bank's redemption of coinage, discontinued from disuse in the early 1700s, was so much forgotten that the question arose whether it had ever been a part of the Bank's policy.

A Dutch lawyer, Nicolas Bond, sued the Bank to resume coin payments, arguing that the right could not be lost through disuse. He won and in January 1794 the Bank resumed paying out coinage on demand. However 2 million Florins were quickly withdrawn and redemption had to be suspended after a few weeks. The City of Amsterdam issued a loan to support the bank but later in the year Napoleon's invasion sparked a revolution in Amsterdam and representatives of the people replaced the town's Regency.

Their report showed deposits of 11.7 million, gold coinage of 2.5 million, and other securities of 9.2 million.

In 1802 the City and the New Batavian Republic, through a forced loan, re-established full coinage cover for the deposits. The Dutch East India Company's debt to the Bank, which was 3.17 million in 1802, was paid off by 1803. The Loan Chamber, which owed 845 thousand in 1802, owed nothing in 1803.

In 1804 the Bank had 7.1 million in deposits and 7.1 million in gold. This declined gradually, as King William I of Holland founded the Bank of the Netherlands in 1814, a bank of issue on the Bank Of England model which paid interest on deposits. He ordered the Bank of Amsterdam dissolved. At the time of its liquidation in 1820 there were 214 thousand in deposits exactly balanced by 214 thousand in gold.

The overall record of the Bank of Amsterdam stands out as one of the best run banking institutions in history. It became a mythical model for how a banking system should function. Those who held it up as the ideal gold and silver banking system were generally unaware that the Bank had issued new money in the form of overdrafts to the City and the Dutch East India Company.

If ever there was a time when a real gold and silver system might have worked, it was then, with the vast metallic plunder coming from America. Yet the Bank considered it necessary to begin issuing abstract money within six years of starting operations. That it felt compelled to keep it a secret indicates the retardation of monetary thought in the merchant's mindset.

Its great success was that it was a public institution owned and run by the City for the benefit of the country and its merchants, and not run by private parties for special interests. This enabled it to raise the credit to make good on all of its deposits when it got into trouble. As such, its operation and policies were generally fair - but only to the Dutch.

## THE DARK SIDE OF THE BANK

The Bank engaged in nefarious activities similar to Venice's vicious 14th and 15th century exportation of Europe's silver money to India (see Chapter 4):

"Yet already in the 1620s we see the Amsterdam Bank carry on the prohibited trade in precious metals," wrote Van Dillen.[5] The Netherlands attracted the silver coinage of her neighbors by frequent changes in her gold/silver ratio, just enough to make it profitable for the silver coins to be sent to her. The laws announcing the changes were called "Placcats" and were common from 1516 to 1615.

Above average weight English or French coins, as well as the clippings from them, also found a market in the Netherlands, where they were re-minted into underweight coins and sent back abroad. Officials of the French Mint complained of:

"...the malice of several who turn into bullion the best of your coins in order to fill the Kingdom with others of less goodness, enriching themselves with the blood and misery of the people." [6]

The English Privy Council complained:

"They send away her Majesty's coin and bullion by reason of the Hollanders trading with the East, and by which means the realm will be secretly robbed if it be not prevented."[7]

Van Dillen noted that "In a memorial of the General Masters [of the Dutch mint] of 9 December 1680, it is stated that the Banks of Exchange, especially that of Amsterdam purchase nearly all the imported minting material, whereas they deliver only a very small quantity to the mints, but sell the greater part for exports to the Indies."[8]

Assisting these coinage operations was Holland's enactment of the first "free coinage" law in Europe just after 1575. This allowed metal to be passed easily between bullion and coinage.

Someday this area of the Bank's activity can be fully documented as the raw data on the Bank is still gathering dust in Amsterdam. We should know to what extent the Bank's success depended on defrauding Holland's neighbors through the molestation of their coinages.

## DUTCH COLONIES

Compared to the Portuguese and the English, the Dutch did a poor job of establishing colonies as Holland needed immigrants herself. Colonies that formed in Brazil, New York and Capetown were quickly taken over by the Portuguese and the English. The Dutch discovered the Hudson River valley in 1609,[A] but surrendered New Amsterdam (New York) to the British in 1664. Capetown was founded in the late 1500s and surrendered to the British East India Company in 1620.

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[A] It was in 1610, a decade before the Pilgrims arrived in the New World, that the Dutch settled Kinderhook NY, where this book is being written.

## THE ADVENTUROUS JEWS OF AMSTERDAM

Amsterdam's Jews played key roles in developing the present form of capitalism and spreading it westward to England. In 1492 Ferdinand and Isabella had expelled all unconverted Jews from Spain. Many went to Portugal and then on to Antwerp when the Portuguese set up their trading depot there. When Portugal introduced its inquisition in 1535, many more "Marranos," as the Portuguese Jews were known, and "nominal" Christians emigrated to northern Europe and engaged in trade with the Levant.

In the 1579 treaty uniting Holland's northern provinces, article 13 ruled out religious persecution and Amsterdam allowed many Jews to set up residence after Antwerp collapsed. Soon they were coming directly from Portugal.

In 1609 there were 200 Portuguese Jews in Amsterdam and then 1,000 out of a total population of 115,000. But the financial power of the Amsterdam Jews was substantial because of their connections to wealthy Marranos living abroad. In 1615 Grotius drew up 49 regulations for Jews allowing 300 families residence; no distinguishing marks were required; but no marriage with "white women" was allowed! The regulations were altered over time and in 1796 Jews were accorded full citizenship rights in Holland.

## THE LEVANT TRADE

With their connections to the Levant, Amsterdam's Jews at first specialized in that Middle-Eastern trade. However, the established Dutch traders first used the Jews as their mentors in international business; after learning it and establishing connections, using their own large capital reserves, they forced the Jews into relatively subordinate positions.

None of the Directors of the Levantine Trading Company were Jewish. According to Bloom, the largest Jewish import/export firm did 2/7 of the importing business and 1/5 of the exporting business of the largest Christian firm.[9]

The Jewish community did dominate New Holland, the Dutch colony in Brazil. Bloom noted that when the colony was at its peak in 1642, the "Wealthy Jewish residents controlling the sugar trade gave all the best positions to their newly arrived co-religionists."[10] They also became involved in the slave traffic associated with Holland.

"The most important current undertakings of the Dutch West Indies

Company consists in the obligation of a few Dutch merchants to take at a fixed price in Curacao as many Negroes as the company is able to carry from the coast of Guinneau," wrote Joseph De La Vega in 1688.[11]

Amsterdam's Jews were not made welcome in Holland's North American colony and Governor Peter Stuyvesant tried to forbid the settlement of Jews in New Amsterdam (New York), citing "their usual usury and deceitful business towards the Christians," but the Dutch West Indies Company rejected his pleas. The first group of Jews arrived in New Amsterdam from Brazil. Records show that Asser Levy, on the first ship, filed a law suit against a shipmate within a week of arriving![12] There is a tiny street next to the 23rd Street yacht harbor in Manhattan named after Asser.

In 1631 the Bank Of Amsterdam had a total of 1,348 accounts representing 1.1 % of the population. Eighty nine of the accounts were held by Jews, representing 9% of the Jewish population, underscoring their economic activity.

GROWTH OF AMSTERDAM'S JEWISH POPULATION:

| | 1609 | 1630 | 1655 | 1674 | 1743 | 1780 |
|---|---|---|---|---|---|---|
| Sephardic | 200 | 1,000 | 1,800 | 2,500 | 3,000 | 3,000 |
| Ashkenazi | 0 | 0 | 0 | 5,000 | 10,000 | 19,000 |
| Amsterdam Totals: | | 115,000 | | | 241,000 | 217,000 |

The Jewish community was entirely Sephardic until at least 1655, but by 1674 the Ashkenazi Jews from Eastern Europe outnumbered them by two to one:

"Upon their arrival in Amsterdam the Ashkenazi found their main occupation limited by the Bank's monopoly," wrote Bloom, but they engaged in it anyway; and did not use the Bank of Amsterdam much, for although there were 5,000 of Askenazi compared to 2,500 Portuguese Jews, in 1674 there were only three Ashkenazi accounts in the Bank, whereas the Marranos held 13% of all the accounts in the bank.[13]

REPACKAGING PIRATE BOOTY

The most adventurous of Amsterdam's Jews became known for re-selling the loot from pirated ships. J. Savary des Bruslons' Dictionaire Universel de Commerce noted: "The Jews of Amsterdam are so expert that after disguising the merchandise by mingling it with other goods or packing it in another way or remarking it, they are not afraid to go to certain Portuguese ports and resell the goods there. Very often they even dispose of it to the same merchants from whom the booty was taken."[14]

When there was factional fighting in Morocco, Amsterdam's Jewish merchants supplied both sides of the battle. Later, both factions in England's civil wars borrowed in Amsterdam:

"During the English civil wars grain was occasionally imported [by both sides] from Holland...In the 2nd half of the century the provisioning business was full blown in the hands of Jewish provideurs. During the Franco -Dutch War, Machado and Periera of Amsterdam supplied the bread wagons of both Dutch and [their enemy] Spanish armies...," wrote Barbour.

"In the war between Denmark and Sweden in 1644-45 both belligerents chartered, equipped and manned whole squadrons in Amsterdam to assist their fleets."[15]

According to Barbour, even in wars in which Holland was involved,


THE SYNAGOGUE, AMSTERDAM
Engraving, 1693

*9b.* **An indication of the importance of Amsterdam's Jewish community in the 1600s and 1700s can be seen in this 1693 engraving of its Synagogue. With banking off limits, the early Sephardic community concentrated on the Stock Exchange and Bible printing.**

Amsterdam's merchants traded with the enemy, financed the enemy, and withheld supplies from Holland, except at monopoly prices. This aspect of capitalism has continued to the present day, unfortunately giving major financial interests a motive to foment warfare.

## DUTCH JEWISH PUBLISHERS

Publishing books was a major activity of Amsterdam's Jewry, and it had a decisive political effect on England and the development of both Protestantism and capitalism. As early as 1617 a Jewish school owned a printing press. Around 1743 there were 40 presses in Amsterdam, using all languages including Greek, Hebrew, Syriak, Arabic, Pessick, and Chinese. The larger part of the output was religious and was mostly for export. The first English language newspaper was printed in Amsterdam in 1620, called the "Courant," with reports from Italy, Germany, and other countries.

## THE GREAT ENGLISH BIBLE FLOOD

The Jewish press of Joseph Athias "claimed to have printed so many Bibles in English that every servingmaid and ploughboy might aspire to own one," wrote Van Dillen.[16] Herbert Bloom puts the number of Athias Bibles at one million, with destinations of England and Scotland.

Sending a million Bibles to England had far reaching political effects and Athias was not the only Bible printer. The most notable was Rabbi Manasseh Ben Israel (1604-1657), who began printing in 1627. According to Tovey, Manasseh had converted to Judaism; his wife was of the Arabanel family, which claimed a direct line to David of Biblical fame.[17] But this may have been put out for English consumption, as it is not mentioned in the modern Jewish Encyclopaedia.

Manasseh is credited with printing the first Hebrew book and printed mostly Bibles. He engaged in grandiose geopolitical operations, especially in his relations with Oliver Cromwell. In Chapter 10 we discuss how he led efforts to gain re-admission of the Jews to England, who had been banned there since 1290 for clipping the English coinage.

Bloom counts 318 Jewish printers from Manasseh up to 1732. The average published edition was 3,000 copies, a high number even by today's publishing standards, considering the populations involved. But this "average" figure could be skewed because of the great number of bibles printed.

According to Van Dillen, from 1625 various "seditious" books were smuggled into England, attacking her social order, including such titles as:

1634 —- *Flagellum Pontificum* by John Bastwick
1652 —- *Apologetical Narration* by John Lilburne
1657 —- *Killing no Murder* by Colonel Titus & Sexby
1673 —- *England's Appeal from the Private Cabal at Whitehall* by Lisola

The printing business in Amsterdam was not very profitable. Discount sales by peddlers, auctions of unsold books, putting books out on consignment, and consignment pledges not being kept ruined the business and rules out the profit motive as the main reason for publishing in Holland.

## SPINOZA WAS IGNORED AND EXPELLED

The political nature of Jewish publishing was evident in the refusal to publish the works of Baruch Spinoza (1632-77), among the great philosophers of his day, a member of Amsterdam's Jewish community and former Talmud student of Manasseh Ben Israel:

"Despite his clear rejection of the fundamental dogmas of their religion, the Jewish community offered him a pension of 1,000 Florins a year if he would conform in public to the Jewish rules of life, but Spinoza refused to compromise and was formally cursed and expelled from the community in 1656," wrote J. L. Price.[18] Amsterdam's Christian community accepted him but he soon died at only age 35.

While the publishing business was Jewish dominated, it was the Amsterdam Stock Exchange that mainly attracted the attention of the Jewish community, particularly since banking was off limits. "Ultimately, they controlled no less than 25% of the shares of the (Dutch) East India Company," wrote Prof. Roth.[19]

## THE AMSTERDAM STOCK EXCHANGE

The Amsterdam Exchange was built in 1611, modeled on that of Antwerp from 1531. Commodities as well as stocks were traded, with specific areas ("pits") designated for trading in different items. Amsterdam from the 1600s onwards was the direct origin of our present exchange mechanisms and procedures. She got them from Antwerp, which is said to have gotten them from the Levant.

In the 1980s and 90s attention often focused on the "innovations" known as "derivative products": stock market indexes and futures and options contracts based on them. Nearly all of these "innovations" were in use on the great Amsterdam Stock Exchange in the 1600s and 1700s. We find the same types of contracts, the same general rules of trading, the same methods of cheating the public and of manipulating markets!

The Exchange offered many types of transactions:
* Stock sold for immediate cash.
* Stock sold on margin up to 80%.
* Monthly settlement dates - the 20th of the month, payment due the 25th.
* Future settlement dates.
* Put and call options, with premiums payable immediately at the Bank of Amsterdam.
* The "Ducatoon" - an imaginary share representing 1/10 of a Dutch East India Company Share, with a monthly settlement price.

Agreements on trades were signaled by handshakes or hand clasps. Trading in various items could be extremely thin or very hectic. During speculative periods "Feverish buying and selling and gambling were continued until 4 o'clock in the morning in the French Coffee House" adjacent to the Exchange, wrote historian Charles Wilson.[20]

DUTCH EAST INDIA COMPANY SHARES

The primary security traded in Holland was the Dutch East India Company (DEIC). It was capitalized at 6.4 million florins, which was over 64 tons of gold. In its first six years it paid a dividend of 25-30% a year. Then in 1612 it paid 57% and in 1613 another 42%.

The Company was composed of six chambers representing the corporations originally merged to form it. These DEIC shares were registered and traded in their six separate cities. Though the shares and dividends were identical, shares registered in one city could not be traded or delivered in another city. Over half of the shares were registered in Amsterdam. Once the market got going, the Amsterdam shares traded at a large premium over the other cities - 30 to 60 % higher for the same company!

The Company had been formed in 1602. By 1607 its shares had risen to 100% over their original par value. However, by 1609 they fell, from that level, down to only 30% over par value. The blame for the drop was placed on short selling tactics, and in 1610 laws were passed against short selling. By 1688 thanks to the success of the company the DEIC shares rose to 580% over their original par value, not counting the tremendous dividends paid on the stock, which totaled 1,482% of the par value.

SHORT SELLING "NULLIFIED"

Short selling continued to be a problem and in 1687 a lawyer, Nicholas Muys Van Holz, wrote a book condemning it and asserting that the Jewish brokers were playing a large part in this speculation. According to De La Vega, this was especially connected to the

*9c.* **Staadtholder Frederick Henry discouraged short selling manipulations on Amsterdam's Stock Exchange by absolving any losses of buyers to whom stock had been sold short (i.e. when the seller hadn't really owned the stock).**

"Ducatoon" shares (see below), and the problem was considered serious enough for Staadtholder Frederick Henry to pass a law that excused the buyer of a contract, that had been sold short to him, from responsibility for any loss on the trade.

EXCHANGE TRADING LORE

The trading lore of the Exchange reads like present day descriptions. There were Bulls - "Liefhebberen;" and Bears - "Contremines" (against the "mine" of India) and Butterflies - "Bichelle," who fluttered between Bullish and Bearish. Some of the trading "rules" from the 1600s can be found on the guidelines that clearing houses hand out to their floor traders today:

"Take every gain without showing remorse about missed profits."
"Never give anyone advice to buy or sell shares."
"Whoever wishes to win in this game must have patience and money."
"The expectation of an event creates a much deeper impression upon the exchange than the event itself."[22]

## CHEATING THE PUBLIC

As with today's Exchanges, cheating was an inseparable part of the Amsterdam Stock Exchange's activity, and as today, it occurred on three levels:

a) Broker's abuse of client's orders,

b) Behind the scenes manipulation of prices, and

c) Using structural faults in market mechanisms to fleece participants.

## BROKERS ABUSE OF CLIENT ORDERS

There were two types of brokers on the Amsterdam Exchange: officially appointed or "sworn" brokers, of which there were 375 Christians and 20 Jews; and more than 700 unsworn brokers, or "free" brokers, who were mainly Jewish. The free brokers were somewhat wild and not proscribed by law from certain practices that took advantage of the clients.

In particular, the sworn brokers were forbidden to engage in "dual trading." This means they were to execute orders for their clients accounts but were not to trade for their own accounts. The free brokers traded their own accounts as well, and would "front run" their clients orders, as well as orders that they could see entering the pit through the sworn brokers.

"Dual trading" was an important issue in the commodity trading scandals of the late 1980s in America. Though public prosecutors suggested forbidding it, the public never understood the process. The politically powerful commodity Exchanges, with their large contributions, blocked legislation against it.

Dual trading should be banned because it represents a conflict of interest. If a broker holding a client's order to buy or sell, is allowed to trade for his own account at the same price, or just in "front" of it, to "front run" it, as it is called on the Exchanges, the market mechanism ceases to function in a fair manner. For the "front running" broker has been given an unfair advantage over other market participants.

For example, suppose a broker has an order to buy at a certain price. If he "front runs" it and before filling the order buys for his own account at, or just above the order price, he then controls the client's order which will buy it back from him, that is, protect his trade from a loss. The same holds true for selling in front of a clients sell order. Just knowing of the orders' existence gives a big advantage.

This is serious because with Members' margin requirements (the cash deposit they must put up) being only about 1%, the front running brokers have a possibility of great gain in a short time period with almost no possibility of loss. If the broker enters and exits the trade on the same day, the margin requirements are generally even lower than 1%!

The client loses the opportunity to gain, where his order is never filled and the market rises or falls from his order point. Second, if the broker lets the order get filled because he can see that the market is going to go through it anyway, the client's order is being filled in an obviously (to the broker) losing situation.

Third, any market that systematically gives an advantage to particular participants over time will harm the relative position of all others. If some participants can trade with little or no risk, over time everyone else will be hurt.

Some modern exchanges put limitations on brokers trading for their own accounts, but they are not always effective because the brokers use what are called "bag men" who they signal to do the offending trade; while they hold back the client's order, to protect the accomplice's trading position, and they divide the profits later.

Efforts made by the Amsterdam Stock Exchange to curb dual trading and front running were not effective, as they have not been in modern times. Computerized trading, as opposed to an "open outcry" system, would largely solve this problem (and perhaps introduce a different form of cheating by the computer literati).

MANIPULATING MARKETS: BEAR RAIDS

In 1688 Joseph De La Vega, a Jewish stockbroker in Amsterdam, wrote a book called *Confusione de Confusiones,*[23] vividly describing exchange activity. He gave a detailed roadmap of how manipulators would launch a bear campaign (to lower prices), outlining 12 stratagems, which I'll summarize:

At the beginning of the campaign the syndicate borrows all the money available at the exchange and makes it "apparent" it wishes to buy (!) shares with the money. When they start their campaign to drive prices down, the bears actually begin with purchases (which raise prices) and take all items offered! Then, having driven prices up as high as they can, they start selling:

They strike the first blow with time sales (futures), reserving the cash sales for the moment of greater distress.

5th stratagem - sell the largest possible quantity of call options

6th strategem - buy the largest possible quantity of put options

| | | |
|---|---|---|
| 7th | " | - loan the bulls money, taking their shares as collateral, then sell their shares. |
| 8th | " | - spread false news by dropping a letter: "They have a letter written and arrange to have the letter dropped as if by chance at the right spot." |
| 9th | | - They get some new person to sell, and finance his loss, if any, in the belief that anything new gets more attention. |
| 10th | " | - Whisper loud enough to be heard. |
| 12th | " | - Sell government bonds to shock the general situation. |

The manipulation of news was also important: "The small boats which were supposed to meet the English ships and speed back to harbour with the news, in reality merely took a turn outside the harbour and having invented their own plausible gossip, came back and sold it to the feverish crowds of speculators," wrote Wilson.[24]

USING STRUCTURAL MARKET FLAWS
TO FLEECE PARTICIPANTS

The "ducatoon" trading introduced structural flaws in the market. They were not real shares but were fictitious or imaginary units, kept as account book entries by a cashier. Each Ducatoon represented 1/10 of the value of a Dutch East India Company share.

The Ducatoons were a monthly phenomenon with a new series of Ducatoons each month. They attracted the smaller investors and speculators, and the market makers were mainly Jewish brokers. While each Ducatoon represented 1/10 of a DEIC share, the market price of the Ducatoons fluctuated independently and the only time they were officially valued at the 1/10 of a DEIC share was on settlement day, the first of each month at 1 pm, as signaled on the floor of the Exchange by an appointed person "raising the stick." This settlement price would then determine whether speculators had made or lost money on their Ducatoons and accounts would be settled, debiting and crediting accounts.

Readers familiar with modern stock index futures will immediately see the Ducatoon was similar to a stock index future, except it was based on only one company, and for one month at a time; whereas stock indexes are based on an index of many companies, and futures expirations are more extended.

The same type of riskless arbitrage was engaged in then as now. The market makers in the Ducatoon would sell the Ducatoons to speculators at a premium over the DEIC stock, and purchase the underlying stock to guarantee a profit to themselves on expiration day. Alternatively, they would purchase the Ducatoons at a discount, and sell short the underlying DEIC shares. "The members initiate action only when they can foresee its result so that apart from unlucky incidents, they can reckon on a rather sure success," wrote De La Vega.[25]

Such trading is structurally defective because it allows the price of an item (the Ducatoon, or index future) to be artificially determined by the supply and demand of an entirely separate item (the DEIC share or in modern times the stock index). When a large enough position (open interest) is established in the artificially ***dependent*** item (the Ducatoon or index future), it will attract and encourage market manipulators to attempt to fix or rig the independent price determining item at the moment of price determination (expiration date or settlement time). The one factor that makes this manipulation and cheating possible or easy is that the dependent contract is settled for cash rather than for delivery

*9d.* **The Amsterdam Stock Exchange, where most of the "modern" instruments such as puts and calls and even a type of "index" futures contract were already in use from the early 1700s, and of course the very same tricks were used to fleece the public!**

of the underlying item.

*In modern commodity markets this structural defect is unique to futures contracts settled in cash - primarily the stock indexes and financials.* For example, a corn futures contract couldn't be so easily manipulated because of the threat that those who were "long" corn futures might demand delivery of corn. Supplying corn on a particular date, to fulfill the contract, is a completely different matter than coming up with cash. Cash can always be borrowed in an emergency, allowing the manipulators wide leeway in their machinations.

The Ducatoon was settled for cash, not the underlying DEIC shares, making the Ducatoon the first known example of this type of structurally flawed futures instrument which have now been made even easier to manipulate by the existence of cash-settled options on the futures. These types of contracts are primarily a gambling activity and could be outlawed without loss to society.

## ENGLAND'S INEFFECTIVE NAVY

From 1609 to 1667 the Dutch became more internationally oriented, creating a trading empire on the heels of the Portuguese decline. This brought them into conflict with the English, with whom they engaged in on and off fighting from 1652. This culminated in the humiliating expedition of a superior Dutch fleet up the Thames river in 1667, which towed away many British warships down the Thames! As a result there was a general peace with England from 1667.

## FRENCH INVADE IN 1672

In 1672 the French invaded Holland, partly out of concern for her growing power. Holland was in turmoil and the flight of capital became a panic, with a 16% discount on money in Holland.[26]Bloom relates that the Jewish community offered the French 2 million guilders if they would spare the Jewish quarters of the city![27] However, Holland held a strategic advantage - the ability to flood sections of the country. She used her sea works infrastructure to hold off France.

## THE DUTCH NEGLECTED INDUSTRY

The development of a pervasive speculative psychology had bad effects on Amsterdam. While Christians were active speculators, and the largest Dutch financiers were Christian, the Jews had concentrated their activity on the Stock exchange:

"One of the most important developments of the 18$^{th}$ century is the way in which [Jews] came to dominate the [brokers] guild...Portuguese

Jewry had completely forsaken trade in order to take up gambling on the share market," wrote Wilson.[28]

This concentration in finance eventually led to commercial decline for the majority of Dutch, beginning around 1660-80:

"A few old merchants can still remember the days when Zwaanenburger Straat here in the City was every day strewn with casks and bales of merchandise, humming with work people...now grass grows there so to speak, and amongst the whole population of Portuguese Jews there is not so much commercial activity. Could a more apposite picture be painted of the grievous effects of share gambling on a people?" wrote De Koopman.[29]

The Bank of Amsterdam's monopoly on money changing and banking had effectively stopped the manipulation of Holland's medium of exchange. However, the Stock Exchange became a great mechanism of international finance, with its accumulation of capital and relatively efficient operation. Foreign governments, especially England, were able to float loans there at half the interest rate that was possible at home - about 3% compared with 6% in England. According to Barbour, the Dutch were actually forbidden by their government to loan to foreign powers or invest in foreign companies, but they ignored the law.[30]

And it was not just the moneyed classes that participated. For the first time ordinary citizens, as distinct from professional financiers, had been drawn into international finance on a large scale.

## COSMOPOLITANISM HARMED HOLLAND

Specializing in international finance led to a developing cosmopolitan outlook, which led to a disregard by the richest Dutch for their own society and fellow Dutchmen:

"...The increasing importance of the financial sector of the Dutch economy seems to have brought with it an increased concentration of wealth in the hands of a small group of wealthy rentiers. Moreover the heavy involvement of wealthier classes in foreign investment led to a certain dissociation from the national interest, as the interests of these groups were often as closely bound up with those of foreign countries as with the Republic...There was a growth of large scale structural unemployment. After 1715 the Republic ceased to play any role of significance in European affairs. The dominant groups in Dutch politics preferred to accept the fall in international influence of the Republic, rather than embark on reforms which would have undermined their vested interest...The tax system placed the burden on those least able to support it and the resources of the wealthier sections of society were hardly tapped at all," wrote Price.[31]

A patriotic revolt in 1780 failed. It took Napoleon's invasion to shatter the power of the Regents allied to the House Of Orange, but by then that house had seized the British Crown.

HOLLAND FINANCED ENGLAND

The British borrowed heavily from the Dutch from at least 1642 when Queen Henrietta Maria of England personally brought the Crown jewels to be pawned in Holland in order to buy arms. Never mind that the arms would be used in the English wars against Holland!

"Dutch money was important and even indispensable to the British Government roughly from the latter years of the 17th century until 1780 at least," wrote Wilson.[32] The biggest Dutch financiers were the Christian houses of Hope, and Pelse, which specialized in bill brokering. The Jews made more political loans, such as to the Dutch House Of Orange's William III to enable him to become King of England.

From 1750 on, Dutch capital penetrated everywhere. About one-third of the British national debt was held in Holland, paying 1.4 million pounds annual interest:

"Dutch speculators helped to reproduce the intricate apparatus of speculation (in London) which had already been perfected at Amsterdam a hundred years before," wrote Wilson.[33]

"The shares system was introduced on the London Exchange towards the end of the 17th century by Portuguese Jews from Amsterdam," wrote Van Dillen.[34]

"The migration to London of a small but important group of Dutch traders and financiers, Christian and Jew together with Huguenots who came via Holland, and...rivaled the Jews in their cosmopolitan financial competence...The system of government finance...was molded on the Dutch pattern and in the process not a few Dutch hands were employed. Now we begin to encounter the names of some of the famous Portuguese Jewish families who had taken refuge in Holland a century earlier - the Medinas, the Suassos, and the Pintos as well as Dutch Christian names - the van Neckers, Von Nottens, Van Hemerts," wrote Wilson,[35] "Was not the Bank Of England floated with Dutch capital? And were not the Dutch bankers still among its largest stockholders and customers in the 1760s?"[36]

DUTCH SHIFTED SUPPORT TO THE UNITED STATES

In 1780 the Dutch held 3/7 of the English national debt. However, as a result of England's war with the American colonies, they began shifting money from England to France and America. The Dutch lost big in this decision.[37] After the American revolution, Dutch neutrality and confidence in the English expired. They loaned 29 million guilders to America between 1782 to 1790. In 1785 there was very heavy selling of British securities on the Amsterdam Exchange. By June 1802 American securities topped the most active list at the Amsterdam Stock exchange, and in January 1818 Holland held almost as much in American loans as the British did: $11 million compared to $12 million.

To summarize, on her ascent to dominance of northern Europe, Holland took control of the Cape route to the East, including the ever important gold/silver ratio trade. A key internal engine of her development was the Bank of Amsterdam. As a city owned and run institution, it removed the temptation to molest the money supply, encouraging merchants to engage in more productive activities. The Bank's high reputation demonstrated the ability of public officials to professionally manage the money system.

Though based on gold and silver, the bank money it provided was a more abstract form than coinage, and that further helped trade and industry. The Bank generally separated money from credit. When it failed to do so, in regard to the Dutch East India Company, its defining feature as a public institution facilitated its rescue.

That the Bank found it necessary to create credits for the Dutch East India Company, even though gold and silver poured into Holland in unprecedented amounts from the plunder of the Americas, strongly indicates the inadequacy of "precious metals" money systems.

The Jews were relatively welcomed by Holland, but were banned from engaging in banking. Some were involved in what turned out to be a deeply political form of publishing, and many others became influential on the great Amsterdam Stock Exchange. There we saw developed many of the instruments, and the problems, that today are thought of as modern innovations.

One effect of the success of the stock exchange was to direct the Dutch away from industry into a form of cosmopolitan finance which ignored the welfare of the general population, and of Holland.

Thus in the 1800s, Dutch trade and finance was dwarfed by British industrial production. England's policy according to Wilson was that *economic supremacy could only be grounded in political power,* while the Dutch overlooked that fact.

### *Notes to Chapter 9*

[1] Violet Barbour, *Capitalism in Amsterdam in the 17th Century*, (Baltimore: John Hopkins Univ. Press, 1950), p. 17.

[2] Barbour, cited above, p. 88.

[3] Herbert Bloom, *Economic Activities of the Jews of Amsterdam*, (Port Washington, NY: Kennikat, 1935), p. 172

[4] Jonathan Israel, *Dutch Primacy In World Trade* (NY: Oxford Univ. Press, 1989), p. 77.

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[13]Bloom, cited above, p. 176.

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[21] De La Vega, cited above.
[22] De La Vega, cited above.
[23] De La Vega, cited above, pp. 30-32.
[24] Wilson, cited above, p. 104.
[25] De La Vega, cited above, p. 30.
[26] as quoted by Barbour, cited above, pp. 57-58.
[27] Bloom, cited above, p. 205.
[28] Wilson, cited above, pp. 14-15.
[29] Wilson, cited above, quoting De Koopman, Ch. 5.
[30] Barbour, cited above, p. 126.
[31] Price, cited above, pp. 213-219.
[32] Wilson, cited above, p. 78.
[33] Wilson, cited above, p. 240.
[34] Van Dillen, *History of the Principle Public Banks*, cited above, p. 107.
[35] Charles Wilson, *Holland and Britain*, (London: Collins, 1946), p. 25.
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# CHAPTER 10

# THE TRANSFER OF CAPITALISM TO ENGLAND

"What have we then gotten by our deliverance from the Pope's tyranny, if these petty men succeed in the place of it?"
Thomas Hobbes

The Dutch House of Orange, with Calvinism as its ally, was overwhelming Holland's republican constitution from the mid 1600s, but faced the problem that even as it outgrew Holland it was still vulnerable to attack from largely Catholic France. According to Disraeli, this need for a larger power base was the motivation behind William III of Orange's campaign to seize the English Crown in 1688, transferring capitalism to England in the process.[1]

## THE BREAK WITH ROME

England was a Catholic nation until Henry 8th (1491-1547) broke with the Roman Church. He was madly in love with Ann Boleyn and asked the Pope to grant him an annulment . The Pope would likely have complied but Henry's wife Catherine appealed, forcing a bureaucratic delay, and Ann Boleyn was pregnant. Henry caused the Church Of England to be founded and married Ann who had their child, Elizabeth I.

There was also a financial motive:

"When Henry 8th broke with Rome it was on persuasion of a man Thomas Cromwell [a moneylender and Oliver's grandfather]..." wrote Belloc. On Cromwell's suggestion he began the dissolution of the monastery lands. Henry nullified Papal appeals, and a key leader, Thomas More, was executed.[2]

From 1536 to 1553 the vast monastery lands were seized, first the small and then the large, creating a class of new millionaires. Henry VIII legalized usury in 1545, setting a limit of 10% per year.

It remained to convert the general population and apparently that didn't take very long.

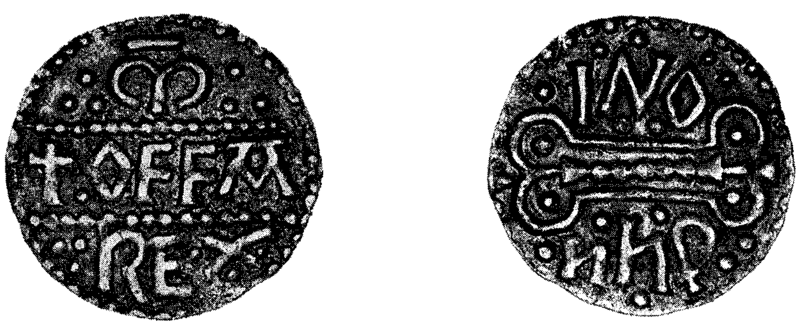
"It was the prime business of the new millionaires with William Cecil (Lord Burghley) at their head to root out the Catholic Church and after more than half a century of work the corner was turned," wrote Belloc.[3] The break with the Church was also at that time important, perhaps crucial, to the need of strengthening local sovereignty within England.

ENGLISH MONETARY BACKGROUND

England had two advantages over continental Europe: as an island there was a degree of isolation and oneness resulting in a kind of unity; and as the westernmost outpost of the Empire, distance made her less subject to the whims of the Imperial, and later the Papal, will.

When the Western Roman Empire had degenerated, England's money system had totally collapsed back to barter with no coinage circulating for two hundred years from about 430 to 630 AD.[4]

As silver reappeared in Europe, coinage also revived in England. Many mints were established from 800-900 AD. Consistent with the sacred control of money, "Early Anglo Saxon mints seem to have been run mainly under ecclesiastical dominion," wrote Craig.[5] But there was some central control: all the dies for stamping coins had to come from London.




*10a.* **An English silver penny of Offa, King of Mercia from 757 to 796 AD, struck in Canterbury (1.277 grams, 18.2 mm).**

In 930 AD Athelstan's Law decreed that only one coinage should circulate in England. Minting thrived in the 10th century and the abundance of silver is indicated by the large tribute payments of "Danegeld" to Denmark - 10,000 pounds in 991 AD and 82,800 pounds in 1018 AD.[6]

The Anglo Saxon kings had as much control over the money of their realm as the Emperor in Byzantium had over his. The main Anglo Saxon coinage was the silver penny:

"Anglo Saxon pennies were of token value rather than intrinsic value...They fluctuated quite considerably in weight and fineness from one issue to the next and yet their value remained constant, since it derived not from their intrinsic worth but from the word of the King," wrote Spufford, estimating they were valued about 1/3 over their metal content.[7]

A MONETARY FORM OF TAXATION

The Anglo Saxons kings re-coined the money about every six years, calling in all the coins and issuing three pennies for every four taken in. This represented a 25% tax or about 4% a year. Spufford maintains that this revenue provided the strength of the late Anglo Saxon and early Norman kings, who adopted their money system.

After the Norman conquest in 1166 AD, the Crown's coinage prerogative was strengthened. The re-coinage of 1279-81 indicates a circulation in England of 120 million pennies, or £500,000 - more than she would have in circulation at any time in the next 500 years.[8]

Some religious officeholders attempted to continue exercising the money power; we hear of them mainly through the record of their arrests. In 1362 the Abbot of Missendon was convicted of clipping and forging coins; in 1369 the Canon of Dunsmore was accused of counterfeiting Gold and silver coins; in 1371 the Canon of St. Gilbert de Sempingham was charged with smuggling coins abroad.[9] But they appear to have acted more for personal gain than in the belief that they held the coinage power.

ENGLAND'S GOLD COINAGE

The first English gold coinage was by Henry 3rd in 1257. It weighed 43 grains and was valued at 20 silver pennies, at a gold/silver ratio of 10 to 1. The coin didn't achieve widespread acceptance and was withdrawn and followed in 1343 by the "Noble," weighing 134 grains, at a gold/silver ratio of 11 to 1. Nobles were exactly double the weight of the Bezant and were the first English coins minted "By the grace of God" instead of "By the grace of Caesar." Silver, however, remained the mainstay of England's coinage.

## A DIFFERENT PERSPECTIVE

Most discussions of English monetary history focus on the 17th century goldsmith/bankers and how they supposedly invented banking and paper money and were taken advantage of by an immoral Monarch. This chapter examines that history from a very different perspective to gain a deeper understanding of the forces at work. With additional research and corroboration, this chapter, with Chapter 11, should provide the structure for a book-length work.

## THE CROWN'S MONETARY PREROGATIVE

The key monetary feature of England as it emerged from medieval times was that the monetary power was concentrated in the Kings' hands and had not been divided among other nobles. As a result she suffered less from monetary chaos than the nations emerging on the European continent.

In the ongoing power struggle between King and Parliament the fight over the monetary power was relatively mild:

Under Henry 2nd (1154-89), taxation, which had been considered a gift to the king, was nationalized.

Under Edward 3rd (1326-77), the Commons obtained three powers: Parliamentary consent to all taxation; both houses to concur in all legislation; and the right to investigate and amend administrative abuses.

In 1346 Parliament attempted to gain control over money but was refused. In 1414 Parliament tried to get at least a veto power in monetary matters but was again refused.

"Why did Parliament not succeed in its attempt to assume the coinage power as it succeeded in assuming the power over taxation? One reason...was that Parliament had no other remedy to propose, no other line of conduct to suggest than that pursued by the Crown," wrote Breckenridge.[10]

For despite modern day prejudices, the English King's long standing monetary prerogative had been used in a responsible manner for the benefit of the nation. Writing in 1896, Shaw 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%.[11]

## STRUGGLE FOR CONTROL OF ENGLAND'S MONEY:THE MIXT MONEYS CASE - REGAINING THE SCIENCE OF MONEY

The landmark Mixt Moneys of Ireland Case arose during the reign of Queen Elizabeth I, known for her efforts to put the coinage on a sound footing. It's still cited in 20th century court decisions. Elizabeth issued base metal coinage as legal tender in Ireland in May 1600, annulling all other coins there and requiring they be returned to the mints. An Irishman then paid a £100 debt to a London merchant in the new coinage. The merchant sued for the £100 in gold and silver coin.

The case was argued at the highest levels and decided in favor of the Irishman. It formally re-stated many of the concepts of money, lost in the dark and medieval ages. Paraphrasing key elements of the decision:

*The nature of money was identified as a societal institution rather than merely metal.*

*Money is a public measure...and every commonwealth has adopted its own monetary system...

*The sovereign, or those licensed by him, has the authority to create the money of his dominions and it is treason for any other to do so...When the sovereign declares a piece of money to be a penny, groat, or shilling, that makes it so.

*The Sovereign has the authority to increase or diminish, to raise or lower moneys, to enhance or depreciate their legal value, to decry them, and to reduce them to bullion, in which condition they may be prohibited to be used as money...This is a power that the state reserves for its own safety and welfare.

*Coins have intrinsic and extrinsic qualities. The intrinsic qualities consist of weight and fineness; the extrinsic of denomination and value. Intrinsic qualities are conferred by nature; the extrinsic by the sovereign or state.[12]

According to Del Mar the decision was so detested by the merchant classes, the goldsmiths, and later the British East India Company, that they worked incessantly to destroy it.

This occurred in two stages:

The first stage *was to destroy the British Crown's monetary prerogative, throwing the control of money open to the merchants and financiers.* This was done by undermining the Crown and then passing the free coinage act of 1666. But it ultimately destroyed the Monarchy, opening the way for the foreign element to establish a new Monarchy, *and to reconstitute the money prerogative in the hands of a specific* *group of financiers* - not elected, not representing society and in large part not even English.

THE RELIGIOUS UNDERMINING OF THE MONARCHY

Thomas Hobbes, the renowned 17th century theorist on government power, provides rare insight on the destruction of the monarchy in his major, though suppressed work, *Behemoth* (not *Leviathan*!). In Socratic dialogue style, Hobbes has a participant in the discussion pose questions, which we underline:

"[Charles I, 1600-49] A man that wanted no virtue, either of body or mind, nor endeavored anything more than to discharge his duty towards God, in the well governing of his subjects...But the people were corrupted generally...

"<u>But how came the people to be so corrupted? And what kind of people were they that did so seduce them?"</u>

"The seducers were of divers sorts. One sort was the ministers, 'Ministers of Christ' (as they called themselves)...and sometimes 'Gods Ambassadors' (commonly called Presbyterians)

"(others) were papists...independents for religious freedom, Anabaptists...Fifth Monarchy Men...Quakers, Adamites, etc. "And these were the enemies which arose against his majesty from the private interpretation of the scripture, which had been exposed to every man's scanning in his mother tongue."

**"For after the Bible was translated into English every man, - nay every boy and wench that could read English, - thought they spoke with God almighty...and every man became a Judge of religion and an interpreter of the scripture for himself."**

<u>"But you have not told me by what art, and what degrees they (the preachers) became so strong.</u>"

"They had the concurrence of a great many gentlemen. These by continually extolling of liberty and inveighing against tyranny...draw people to a dislike of the Church, government, canons and common prayer book."

"They did never in their sermons, or but lightly, inveigh against the lucrative vices of men of trade or handicraft; such as are feigning, lying, cozening (cheating, fraud, deceit), hypocrisy, or other uncharitableness, except want of charity to their pastors and to the faithful; which was a great ease to the generality of citizens and the inhabitants of market towns."

"They did with great earnestness and severity inveigh against carnal lusts and vain swearing...but the common people were thereby inclined to believe that nothing else was sin, but which is forbidden in the 3rd and the 7th commandments…for men are not ordinarily said to lust after another man's cattle, or other goods or possessions, and therefore never made much scruple of the acts of fraud and malice."

**"What have we then gotten by our deliverance from the Pope's tyranny, if these petty men succeed in the place of it, that have nothing in them that can be beneficial to the public, except their silence?** For their learning, it amounts to no more than an imperfect knowledge of Greek and Latin and an acquired readiness in the Scripture language, with a gesture and tone suitable thereunto; but of justice and charity, the manners of religion, they have neither knowledge nor practice, as is manifest in the stories I have already told you: nor do they distinguish between the Godly and the ungodly, but by conformity of design in men of Judgment, or by repetitions of their sermons in the common sort of people."[13]

Hobbes had little respect for the Papacy. He loved women, and lived to 93 with mistresses until near the end. Observing how the Church attempted to create guilt for even enjoying looking at a beautiful woman, something Hobbes considered automatic, he summed up the Catholic Church's position in one phrase: "God! A monopoly of women!"

The degree to which morality became separated from law under Protestantism is evident in the error that even Hobbes made about contracts:

"Covenants entered into by fear...are obligatory...If I be forced to redeem myself from a thief by promising him money, I am bound to pay it, till the civil law discharge me."[14]

Reading Hobbes' *Behemoth,* the author is struck by similarities to the present day religious undermining of American democracy.

EXPULSION OF THE JEWS FROM ENGLAND

The Jews had lived in England as moneylenders sanctioned by the English Crown during the 12th and 13th centuries. Their situation throughout Europe had grown ever more tenuous as centralized Roman power had declined:

"By the 8th century their legal status as Roman citizens under the Theodosian Code had ceased to give them any protection," wrote James Parkes in his definitive work *The Jew in the Medieval Community.*[15]

Chapter 5 noted the dominant Jewish role in the European slave trade from the 8th to the 11th centuries and the terrible vengeance exacted upon many Jewish communities by the Crusaders as they gathered for the 1st march to Jerusalem. Chapter 7's discussion of the Reformation outlined how Calvinism elevated the status of the Jews for Biblical reasons in the 1500s. But from the 9th to the 15th century their status emerged as special exceptions to the common law, under the protection of the Princes. These conditions were often set forth in formal "charters" between the Prince (or King) and the organized Jewish community in his domain, and both sides expected to draw advantages from the arrangement.

**The Jewish charters**[16]

The Jews were often considered as the property of the Prince, and in some times and places, when they died their property went to the Prince.

The charters licensed the Jews to practice usury except against Church property as collateral, in order to minimize friction with the clergy. The Jews were to sue and be sued in the Royal courts, but at some times and places they refused to appear in ecclesiastical courts, setting off skirmishes between the Princes and the Bishops. For example, around 1220 AD the Archbishop of Canterbury and the Bishop of Lincoln tried to enforce their authority by forbidding Christians to sell food to Jews who had refused to appear in Church courts. The Crown countered by ordering any such Christians to be imprisoned.[17]

Kings and Princes generally protected "their" Jews in order to protect the substantial revenues they got from them. When Pope Alexander IV added usury to the activities prosecuted by the Inquisition in 1257, James II of Aragon informed the Inquisition that his Jews were not to be tried for heresy. Around 1293 Philip the Fair of France forbade the Inquisitors from acting in matters that affected his Jews,[18] but in 1306 he would expel them. The Jews were re-admitted to France in 1315, expelled again in 1322, readmitted in 1361 and again expelled in 1395. The Jews were banished from Spain in 1492, from Sicily in 1493 and from Portugal in 1496. For a time only the region that became Poland was open to them.

**The charters set the Jews in opposition to the general populace**

Parkes pointed out that:

"…as chartered royal usurers their interests were likely to be diametrically opposed to those of the rest of the population."[19]

The Charters of the towns of Worms and Speyer had an especially discordant provision: goods stolen by Christians from Jews were to be replaced at double value, however, if Jews possessed stolen goods the Jews were to be re-imbursed the amount that they swore they had paid for them. Christians holding stolen property simply had to give it up. This provision would appear to encourage the Jews to act as "fences" for stolen goods, setting them at odds with the community. At the request of Jewish leadership, in 1236 AD, Frederick II extended the charter of Worms to all the Jews in Germany.[20]

Such "mistakes" guaranteed an adversarial relation between Jewish and Christian communities. They bring to mind Harwood's view of the motivation of the Torah's final editor known to Bible scholars as the "Priestly" author, or "P" (perhaps Ezzra, around 434 BC). He instituted an abundance of religious rules during the Babylonian captivity, Harwood believes, in order to stop the assimilation of the Jews into Babylon.

"The Priestly author instituted his policy of planned incompatibility...," wrote Harwood.[21]

**Medieval England's Usury Rates**

The going interest rate with good collateral was 2 pence per pound per week, making it 43 1/2 % per year. Without good collateral it was double - 87% per year.

By the late 12th century the harmful concentrating effects of usury were being severely felt. Professor Cecil Roth in his study *History of the Jews of England* wrote that:

"When he died in 1185, Aaron of Lincoln (a Jewish moneylender) was probably the wealthiest person in England, in liquid assets." And

"...In 1188...the Jewish capital was estimated to constitute more than one-third the mobile wealth of the nation - certainly an exaggeration, yet at the same time indicative of their relative importance to the exchequer" ...and inevitably:

"...In 1190 anti Jewish feeling was intense. It was popular, not from above."[22]

Apparently it was worst in York, where Aaron of Lincoln's operations had been centered.

**"A century of such a system was more than any community could stand and the story of Jewish usury is a continuous alternation of invitation, protection, protestation and condemnation. Jewish money lending reached important proportions in England in the middle of the 12th century; in 1189 and 1190 there were massacres throughout the country...the rioters often (sought) out and**

**(destroyed) the Jewish records of their indebtedness," wrote Parkes.**[23]

The massacres of 1190 didn't end the problem. In 1215 AD, the Magna Carta's 10th and 11th clauses contained mild provisions limiting Jewish usury. In 1218 Jews in England were forced to wear a prescribed mark on their outer garment.

In 1194 AD the English Crown had established an Exchequer to oversee Jewish matters and collect the tallages they were required to pay to the Crown. According to Professor Roth these totaled 250,000 marks of silver from 1227 to 1259:

"In order to support these constant calls upon their purse, they were compelled to exercise still greater acquisitiveness in their business affairs, grinding desperately out of their clients the amounts that they would be compelled so inexorably to surrender to the Crown."[24]

Parkes admitted that there was a mutual responsibility for most anti-Jewish incidents[25] but laid the blame for this constant friction upon the society's intellectual leadership:

"The main responsibility not merely for Jewish usury, but for all medieval usury, must lie with the intellectual leaders of the age, who made no proper provision for a universal social want."[26]

*At the bottom of this failure - then and now - was the error in their concept of money: viewing it as a commodity, failing to recognize the legal nature of money, and to act upon that knowledge and set up honest money systems based in law.* Even today one anticipated side effect of healthy monetary reform would be a meaningful reduction in the still continuing tension between Jewish and non Jewish communities.

If one now finds it important to determine on which side the greater blame lay, in fairness one would have to weigh who had the greater understanding of money and of the results of usury (especially if that knowledge was being obscured), with who had greater freedom of choice.

THE CROWN TAKES ACTION AGAINST USURY AND COIN CLIPPING

Problems with coin clipping were endemic in England:

"In 1205 King John decried [demonetized] all the clipped coins over 1/8 clipped. He threatened all clippers, especially the Jews who he thought were the chief offenders," wrote Del Mar.[27]

As elsewhere in Europe, the Jews in England were under protection of the King, who made heavy financial demands upon them. They in turn got the money from the people through a royal license to practice usury. But coin clipping wasn't considered part of the bargain.

The clippers would proceed gradually, clipping perhaps 5 to 10% of a coin. With large numbers of coins passing through the moneylenders hands, eventually all of the coinage ended up 10% clipped (lighter). Then the clipped coins are clipped another ten percent, etc. Time and again, England's coinage ended up 50% clipped.

In 1275 Edward I issued his Statutum Judaico, revoking the Jewish license to practice usury:

"The King has observed that over the years a great many honest men have lost their entire inheritances because of the usurious practices of the Jews. Indeed many sins have been committed as a result of these practices. Thus despite the fact that the Jews have been very profitable to the King and his predecessors, the King now ordains for the honor of God and for the general welfare of the people that Jews shall no longer practice usury in any form."

"...The King also grants that they may conduct business as merchants, or live by their own labor...the liberty to buy houses...in the cities in which they live...those who are not skillful in business and cannot live by their labor may rent lands on which to farm."[28]

Tovey wrote that the Jewish reaction was bitter: "They soon began to speak out openly against Christianity itself for permitting such inhumanity and they vilified our savior and his apostles with such outrageous blaspheming that...Edward was eventually forced to put a stop to them. He issued a proclamation threatening death or dismemberment if they continued."

*10b.* **A 13th century English silver penny of the type that would end up 50% clipped. The clipping of this coinage led to the 350 year expulsion of the Jews from England by Edward I$^{st}$ in 1290 AD.**

Roth reports that only small numbers of Jews went into trade or farming: "Some are said to have taken to highway robbery," some converted. "Large numbers saw no alternative but to carry on their old profession clandestinely."[29]

On Nov. 17, 1279 many Jews throughout England were arrested. A house-to-house search found large amounts of silver clippings. According to Roth, 680 Jews were imprisoned out of whom 273 were hanged along with three Christian goldsmiths. But the problem persisted and in July, 1290 Edward expelled all of the 16,511 Jews from England.

The expulsion was orderly. Ship captains were ordered not to overcharge on fares to transport the Jews to the continent. In a celebrated case, a captain who had allowed a number of Jewish passengers to drown in an incoming tide was sentenced and hanged.

THE JEWISH DRIVE FOR RE-ADMISSION

In the mid 1600s lifting this ban became the main objective of several European Jewish communities acting in concert. *Their advance landing party was the over one million Bibles that Amsterdam's Jewish printers sent into England during the prior 30 years, described in Chapter 9. As Hobbes indicated, the Bibles played a major role in undermining the monarchy.*

MENASSEH BEN ISRAEL

The Dutch contingent was led by Rabbi Menasseh Ben Israel (see Chapter 9), accompanied by some of the wealthiest Jewish merchants. In their 1649 petition to the English Council to revoke the banishment, they offered £500,000 to repeal the laws against Jews; to receive Oxford's Bodlerian Library; and to turn St. Pauls Cathedral into a Synagogue. Negotiations broke off when the English government demanded £800,000.[30]

Menasseh had written a short treatise, the "Hope of Israel," to be used by the delegation. The title appears based on St. Paul's conciliatory statement to Jewish examiners while he was imprisoned in Rome: "It is for the sake of the hope of Israel that I am bound with this chain." Menasseh's book reads strangely today, as a combination of threat, enticement, insult, and an attempt to create guilt in the English consciousness.

After fawningly dedicating the book to Parliament, he warned that those who act against the Jews are punished by god and gave the examples of King Ferdinand and Isabella of Spain; Pompey of Rome;

and Nebuchadenezzar of Assyria. Menasseh said the Messiah will come when Jews are dispersed all over the Earth. He said that some new world Indian tribes were Jewish related; and so only England banned them. Therefore, he argued, the Jews should be admitted to England to allow the coming of the Messiah!

The second half of the book is written by a Christian, Moses Will, who cited Biblical passages as "Reasons we ought to love the Jews: ...their root is holy; God's covenant with the Israelis is surer than the laws of Nature...We gentiles were gainers by the casting away...They were children and we were doggs, and we doggs have got the childrens meat before their bellies were full...The knowledge of Christ shall stream through the Jewes to the Gentiles...It is a duty which we owe to God's express command...They minded our conversion to God...etc."[31]

This compilation of superstition and insults, being considered as a diplomatic appeal, shows how the Bible was used for political conquest. Calvinism's deification of the Old Testament had far reaching, nation busting consequences.

OLIVER CROMWELL AS THE MESSIAH!

Concurrently with Menasseh's delegation, a group of "Asiatic Jews" led by Rabbi Ben Ayabel arrived "on a secret mission to conduct an undercover investigation into whether or not Oliver Cromwell was the Messiah," wrote D'Blossiers Tovey.[32] Tovey reports that for some reason they weren't very discrete and it became the talk of London. Cromwell, the leader of the Puritans and referred to as "The Protector," had been the main cause of the beheading of Charles I in 1649.

England proceeded cautiously. The opinions of important English Jurists were consulted including John Dury (1596-1680), who had been Mary Princess of Orange's domestic chaplain. He was residing in Kossel, Germany, and was asked by Milton's protégé Samuel Hartlib for an opinion in the light of the Continent's experience with the Jews. First he said "no" based on experience:

"In the Cantons of Switzerland they are not admitted, no not so much as to travel through the country or to come into a town or city without leave and paying a certain duty, or to stay in a city overnight; which is said to befall them by reason of some heinous conspiracies to do mischief to the country where they had liberty to live, attempted by them."

Then he said "yes" based on the Bible:

"Therefore I would suggest this that to open a door in their hard hearts for doing good unto them...for the good which through their miserie is befallen to us gentiles VIZ: that we have the oracles of God by their meanes, preserved and conveyed to us."

Finally he concluded "no" based on the danger:

"Concerning the Jewes...our state doth wisely to go warily and by degrees in the business of receiving them. Menasseh Ben Isreal's demands are great, and the use they make of great privileges, is not much to their commendation here, and elsewhere. They have wayes beyond all other men to undermine a state and to insinuate into those that are in offices, and prejudicate the trade of others; and therefore if they be not wisely restrained they will in short time be oppressive, if they be such as are here in Germany...I can draw no argument from thence for any particular admittance of them at this time."[33]

The petition stirred up much popular resentment against the Jews and many essays appeared against their re-admission. Tovey cites William Prymme's, "*A Short Demurer to the Jews*":[34]

"They (the preachers) have all turned into devils already, and now we must all turn Jewish."

Menasseh Ben Israel's efforts failed and Cromwell was severely criticized over the Messiah farce. The Jews were not formally allowed re-admittance, but began quietly returning to England from around 1650, with Cromwell tolerating their return.

## THE TALLY STICKS

An interesting device, especially in English financial history, is the tally stick. These were thin pieces of hazel wood usually 8 or 9 inches long which initially served as record keeping devices, from at least the 12th century. Deep notches were cut across the sides of the tallies, to record a transaction. Then they were split in half lengthwise (each half bearing the identical notches), so that both parties had a precise record of the transaction. Refitting the split pieces together protected against tampering.

Tallies were used in several distinct ways. At first, as tax receipts - the Crown used them to make sure that county sheriffs had indeed remitted all the taxes they collected. Later the Crown used certain tallies to purchase goods and services, and sold others for coinage in advance of taxes. Some varying discount was normally applied to such "sales." The Crown would then accept these tallies back in payment of taxes at full value. Some were accepted for the taxes of specified persons and property, and later for the payment of taxes in general.

Because the Crown accepted *these* wooden tallies in payment of taxes, *these* tallies were thus given the value of coinage, when taxes were due. This meant that they functioned as a form of money.

Private parties used tallies as bills of exchange, like modern day checks. But such private tallies were not a money form, any more than a personal check is today. A government or private debt could also be represented by a tally device; so could shares in a company.

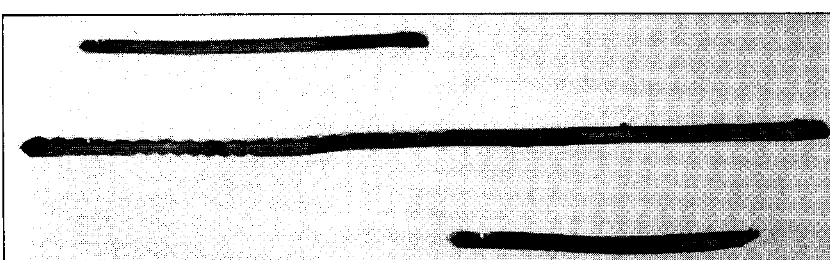
Tallies could also be used as records of debit and credit, where a clearing mechanism then adds them up and determines the net position of persons, as was done (without wooden tallies) at the great trade fair of Champagne (see Chapter 6). There is still a need for a comprehensive and detailed history of the tally stick.

## MONETARILY UNDERMINING THE MONARCHY

Focusing on the monetary cause of the Monarchy's decline, W. A. Shaw wrote:

"The whole reign of James I (1603-1625) was a period of inefficient attempts to rate the English coinage to the incessant rise in the continental coinages, a consequent drain of specie to the Netherlands, and of practical closing of the mints at home." Chapter 9 discussed how the Dutch continually changed their ratio just enough to draw away silver. Indicating that the English mint was out of control, Shaw quoted an Amsterdam correspondent of Sir Robert Stone:

"When the state does not keep extraordinary watch against [coin clipping and culling], all your silver money is thus abused by goldsmiths and others. And when the state does not employ such as can discover those offenders, but puts persons in the mint who have had no experience, great damage must follow."[35]



*10c.* **Examples of tally sticks from the Bank of England Museum. Notches cut in the sides indicate the amount and type of the transaction.**

## THE BLONDEAU INCIDENT

The pervasive corruption within high offices of State and the Mint is shown by Frenchman Pierre Blondeau's experience after he invented a machine that made clipping impossible, by producing a milled-edge coin. France quickly adopted the process. Feaveanyear tells what happened in England:

"In 1649 Blondeau arrived in London and placed his process before a parliamentary committee, who reported favorably on it; but for seven years the Council of State continually delayed their decision regarding its adoption. Meanwhile, Blondeau had to face the uncompromising hostility of the moneyers. He published a pamphlet accusing them of making the coins of different weights, some heavy and some light, so that their confederates outside the Mint might take out the heavy ones and share the spoil with them.

"They replied by attempting to have him arrested for counterfeiting when he struck off specimens of his workmanship. At last in 1656, Thomas Symon, a renowned engraver, prepared some dies for coins with the Protector's head, and these Blondeau was permitted to stamp in the Mint. But Cromwell decided, probably for political reasons, not to issue them, and Blondeau seems to have returned to France in disgust."[36]

## THE FISCAL STRANGULATION OF CHARLES 2ND (1630-85)

England eventually threw off the Cromwellian dictatorship, exhumed his corpse from Westminster Abbey and hung it from Tyburn tree. Charles II was invited to return in 1660, but Parliament intended keeping him on a short leash.

The sanitized Whig histories of this period misrepresenting Charles II as a spendthrift, and London's goldsmiths as good businessmen, are still swallowed by economists. Christopher Hollis presents a very different picture in his book *The Two Nations*.

When Charles II returned to England, one of the first things he did was send for Blondeau, and designate him the Engineer of The Mint. New milled edge coinage began to be produced in 1663.

Charles needed a standing army to ward off continental threats, but Parliament refused to vote the funds and delivered only £800,000 of the £1,200,000 money that was voted, forcing Charles to use his wife Catherine's dowry, for expenses of state.

Dutch financiers appeared willing to finance him but when he allowed legislation to pass that was counter to Dutch merchant desires, they concluded that "The King could not be made serviceable to his creditors," wrote Barbour.[37] Charles was forced to borrow from the English goldsmiths at 8%, giving as security the first taxes later to be voted by Parliament. As this "security" became postponed to a more distant time, they demanded 20 to 30% per year.

Charles considered issuing debased coinage to pay for the army, but the merchants immediately raised their prices 10% "in anticipation" of a debasement! He offered to drop all talk of debasement if they would loan him £200,000 They refused.

"These merchants were the most unfaithful least devoted city merchants who refused to lend him money, showed no eagerness to pay taxes and in the approaching struggle were to be the strongest allies of his enemies," wrote Andreades.[38]

The merchants kept some of their money stored at the Tower of London. Charles finally blocked the funds - £130,000 - refusing to release it until they agreed to lend him a pitiful £40,000. This led to a flight of coinage to the goldsmiths, who had secure premises and accepted deposits from people who no longer trusted Royal safekeeping at the Tower.

Five or six of these goldsmiths were large enough to be considered bankers. They issued receipts for the deposits which came to be used as currency between merchants and others.

GOLDSMITHS WERE BACKED BY THE DUTCH

The goldsmiths were cheats - clipping England's coinage and exporting the clippings; sorting out the heavier coins for export to Holland for reminting into underweight coins. By the mid 1600s the coinage was again in dreadful condition, approaching 50% underweight. What has not been understood, according to Hollis, is that:

"...the London goldsmiths who play such a large part in he story of Restoration England were to a very great extent mere agents, operating with Dutch money."

From a Parliamentary committee report, Hollis lists four of the largest Goldsmiths and the amounts they owed to their Dutch backers: Bucknill - over £100,000; Meynil - over £30,000; Vandeput - £60,000; Dericost - always about £200,000.[39]

CHARLES 2nd PAPER MONEY EXPERIMENT

Finally in 1667 Charles II began to issue a kind of paper money to pay state expenses. They were almost a true money, and took the form of Royal *Exchequer Orders to Pay*, good for coinage after one year, by whoever held them. Taking one more step would have made them a true money - that is not having them payable in "money," but be the money themselves. Had it succeeded it would have had far reaching effects:

**"Had it come to be recognized that, when new money was required, it was the business of the King to issue it," Hollis noted, it would have changed world history.**

But Hollis contends that the goldsmith/bankers blocked this monetary experiment. Charles made the mistake of issuing his new money only in large denominations, so the recipient usually had to change it into smaller amounts. The Banker/goldsmiths offered to exchange the large notes for their own smaller promissory notes, which promised to pay coinage on demand.

Acting in concert, the goldsmiths heavily discounted Charle's notes. Hollis wrote:

"Now by refusing to make the exchange, except at a large discount the goldsmiths were able to bring Charle's orders into a certain discredit. Thus in the year 1672 - in the middle of the Dutch War - Charles, saddled with heavy expenditures which Parliament refused to meet out of taxation, found his creditors reluctant to accept more of their payments in paper orders. Therefore he said most reasonably that, since it was the goldsmiths who were the cause of that reluctance, it must be they who should be inconvenienced rather than the whole country suffer by defeat in war, by defeat at the hands of those who were in fact the goldsmith's paymasters. He therefore postponed for a year his repayment of his past debts to the goldsmiths...

"An exception was made for the paper orders that were in the possession of contractors, suppliers of stores, or servants; they were to be redeemed...

"The holders of the goldsmith's 'promises to pay'...went to the goldsmiths and demanded their cash. Of course the goldsmiths had not got it, for they had been promising to pay cash...to the extent of ten times what they possessed."[40]

The goldsmiths immediately suspended payments to their depositors and hoarded their substantial coinage reserves. About 10,000 of their merchant depositors declared bankruptcy. However, the goldsmiths were hoarding enough money to avert a commercial disaster. Charles convinced them to resume payments to their depositors, promising them the Treasury would pay them in six months; but Parliament later refused to honor his promise and continued paying them 6% interest on the debt.

Hollis' view of this "stoppage of the exchecquer" differs substantially from the usual descriptions. But his knowledge of the goldsmiths gives it enough credence to call for much more research along those lines.

## THE FREE COINAGE ACT OF 1666

According to Del Mar, the British East India Company carrying on the metals trade with India used heavy bribery to help pass the 1666 Free Coinage Act.[41]

The mechanism was deceptively simple. The Act provided that **anyone** could bring gold or silver bullion to the mint and have it refined and stamped into coins for free.

In practice this placed the power to increase or decrease the money supply into the hands of the merchant/financial classes rather than the Crown (i.e. the Nation). Thus if the merchants were in debt they could reduce the value of money (reduce the value of their debt) by having more bullion turned into coins. If they were creditors and had extended loans they could increase the value of what was owed to them by hoarding coinage or melting it into bullion and have it turned into coins again later, free of charge.

Del Mar considered this act a watershed event in monetary history:

"The Free Coinage Act specifically destroyed the royal prerogative of coinage, nullified the mixt moneys case and inaugurated a future series of commercial panics and disasters which to that time were unknown....The conception of money which has grown up since the English Mint Act of 1666 and the French Mint Act of 1679 is that of two different things designed to measure one relation called value. The two things embraced in the confused conception of money which those acts are responsible for are:

1) A commodity whose value conforms to an unknowable cost of production; and
2) A series of coins, notes, etc. the value of each of which is in inverse ratio to their aggregate number and which can therefore have no relation to the cost of production."[42]

"The appropriation of the Goldsmith class of the Royal prerogative has been accomplished in so stealthy a manner that scarcely a trace of it appears in historical works, and none at all in works devoted to political economy...a glaring proof if any were needed of the prejudice and one sidedness which have hitherto animated the teachers of that science. *Of* *all the elements of political economy, money is the chiefest; of all the institutions of money, the right to create it is the most important; yet not a word concerning this once sacred right by the state is to be found in any of the economists.*"[43]

Del Mar is right. One finds almost no mention of it anywhere, not even in authoritative chronological listings of English monetary events. The only other source this author has found, which discusses it meaningfully is W. A. Shaw's *History of Currency*, 1252-1896.

*10d.* **The artist has captured a twisted character element in this eerie candlelight portrait of William 3rd of Orange.**

## THE BRITISH EAST INDIA COMPANY

The British East India Company was the largest company on England's stock exchange in the 1600s and 1700s with an initial capital of £740,000. Next largest were the Africa, or Guinea Company, and the Hudson Bay Company, both capitalized at £110,000. All these were dwarfs compared to the Dutch East India Company. In the early 1600s business was going badly. Even though its book value was estimated at 130% of par in 1664, the shares were trading at only 70% of par value.

Then in 1677 the French Army besieged their main competitor - Amsterdam and the Dutch East India Company. The shares of the British East India Company quickly rose to 245% of par, and three years later to 500% of par.[44]

In 1681 numerous complaints were made to the King that very few people got the benefit of this: "There were 550 shareholders but most of the company was held by 40 persons. Shares seldom came to the market, and tended more and more to get into the hands of a few individuals...in 1681 there were no regular dealings in East India Company shares...(though) there was a general lively desire to buy (them)."[45] A substantial portion of the shares were owned by foreigners.

## THE COMPANY EXPORTS ENGLAND'S SILVER MONEY SUPPLY

The gold/silver ratio mechanism between East and West enters our study again for the last time. The British East India Company was sending British silver coinage to India and bringing back gold, among other things. John Locke complained about it in 1718:

"I am told, (they) do sometimes import (gold) from some parts of India at 50% profit..."

"My author has...traced this destructive plague to the right house (the British East India Company), though he seems very cautious of fixing his seal upon the door…But the solid wealth of the Kingdom is sinking into the Indian seas, and tis high time for somebody to speak plainly and show the nation this true cause of this never before (in our time) heard of scarcity of silver."[46]

The company promoted the Free Coinage Act of 1666 because they wanted to monetize their imported gold bullion directly into coinage, rather than selling it on the market, which would have had very different results.

## WILLIAM III OF ORANGE GRABS THE ENGLISH CROWN

William III's wife Mary was the Protestant daughter of the Catholic

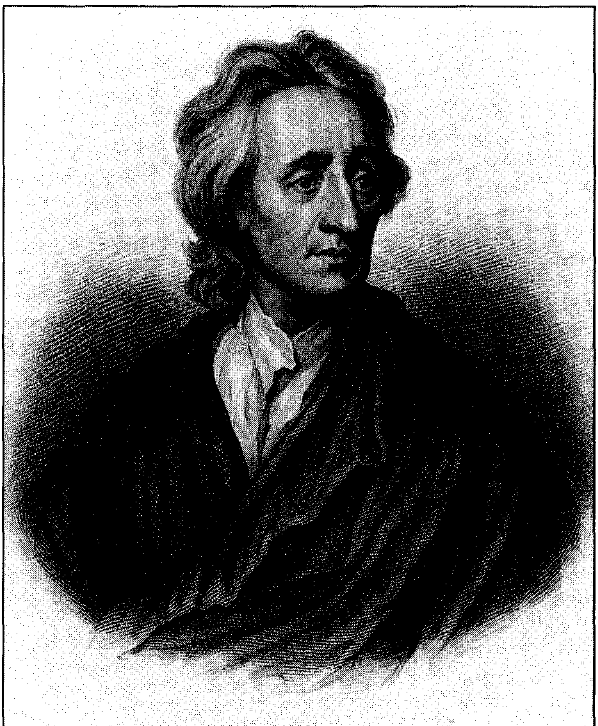
James 2nd (1633-1701) of England. William was invited by elements in England to mount a campaign to temporarily take the Monarchy. After years of planning, the assault, misnamed the "Glorious Revolution," landed in November 1688.

William's attack had heavy Jewish financing. Isaac Lopez Suasso of the Hague advanced him two million gold crowns, interest free; Suasso was later made the Baron d'Avernas le Gras.[47]

From the reign of William 3rd of Orange we see the precise origins of the primary destructive mechanisms operating upon society at the present time.

Sir Archibald Alison's *History of Europe* noted:

"The Prince of Orange brought from the Republic of Holland where it had been already practiced and thoroughly understood the secret of



*10e.* **Philosopher John Locke became part of William 3rd of Orange's revolution, returning to London with William's wife. He wrote a book promoting toleration, with some exceptions, including that it was all right for the Jews to remain religiously intolerant. This double standard reduced the seriousness of Locke's philosophic system.**

governing popular assemblies and extracting heavy taxes from popular communities...his whole effort was directed to gain the majority of the constituencies by corruption and of votes in Parliament by patronage...It was then that the national debt began; and government was taught the dangerous secret of providing for the necessities and maintaining the influence of present times by borrowing money and laying its payment on posterity."[48]

Taine wrote: "William 3rd's reign had been one long series of wars and commercial crises which had so disturbed the country...There is a deadness and want of spirit in the nation universally....There was nothing to be seen but corruption in high places and brutality among the common people - a group of intriguers leading a populace of brutes."[49]

Wilson wrote: "William himself arrived backed by Dutch Guilders: a few years later Britain found herself with a funded national debt on the Dutch model, and a Bank of England set up with capital assistance from Amsterdam. All this did not go unopposed. The bank was a Whig Bank supplying a Whig government with money for a whig war. Small wonder that the Tory country gentlemen looking on in helpless frustration bitterly dubbed the system Dutch Finance."[50]

John Locke's five-year exile ended when he returned to England from Amsterdam on the same boat with William's wife. Locke busied himself as an official of the British East India Company and wrote a widely circulated treatise on "Toleration" which went into six editions over the years. The book preached a universal toleration except to four groups: those who would undermine society; the intolerant; those with foreign allegiance; and athiests. Locke also stretched logic to make the case that it was all right for Jewish society to generally practice intolerance.

In an anti-climax, the Jews were allowed back into England by Royal decree, without Parliamentary action. Roth says the first Jewish "settlers," he calls them, brought £1.5 million of gold with them. The Jewish Encyclopedia remarks: "The reign of William 3rd marked a period of exceptional prosperity for the Jews…the Prince employed Jews in his negotiations with foreign Kings, and Isaac Lopez Suasso who lent 2,000,000 Guilders to William for his descent upon England."

While the large Jewish moneylenders had the King in debt, the benefits don't seem to have trickled down to the average Jew. By the middle of the 1700s the number of Portuguese Jewish stockjobbers working in London for correspondents in Holland was considerable but "only the 2 most prominent - Gideon and Salvadore - were on the Governments approved list for government underwriters," wrote Wilson.[51] He continued:

"In spite of the emphasis laid by eighteenth century writers in England and Holland on the part played by the Jews in finance it is clear that individually the Christian firms - the Van Necks, the Stapels, the Barings, the Van Nottens and Muilmans, the Bosanquets, the Dorriens - were bigger and more important. It is they who moved from trade in commodities into legitimate banking: on the whole the Dutch Portuguese Jews who came to England did not find a permanent place in British finance."

From this point it becomes more difficult to separate the financial activities of the major Jewish, Dutch and English financiers, who all used similar financial methods. Those responsible for the treachery of war finance, privately owned and controlled central banking, creating impossible government debts, with correspondingly harsh taxation, are not always identified with any one national, religious or racial body. They are more appropriately identified as a financial group or gang, not really large enough to be called a class.

Hollis gets the last word on the transfer of Capitalism to England:

**"At the turn of the century, London established itself as all that Amsterdam was...or, to put the truth with more exact accuracy, an international gang, which had up till then operated from Amsterdam, found it more convenient to operate from London instead."**[52]

## *Notes to Chapter 10*

[1] See Disreali's *Sybil*.

[2] Hilaire Belloc, *How the Reformation Happened*, (New York: R. McBride, 1928), p. 95.

[3] Belloc, cited above, p. 175.

[4] Glyn Davies, *A History of Money from Ancient Times to the Present Day*, (Univ. Wales Press, 1994), pp. 110-120.

[5] John Craig, *The Mint - a History of the London Mint from 287 to 1948*, (Cambridge Univ. Press, 1953), p. 4

[6] Peter Spufford, *Money and its Use in Medieval Europe*, (Cambridge Univ. Press, 1988, 1993), pp. 83-93.

[7] Spufford, cited above, p. 94.

[8] Spufford, cited above, p. 204.

[9] Alexander Del Mar, *Middle Ages Revisited*, (New York: Cambridge Encyl., 1900), Ch. 22.

[10] Sarah Breckenridge, *Legal Tender…*, (Univ. of Chicago Press, 1903), Ch. 5

[11] W.A. Shaw, *The History of Currency, 1252-1896*, (1896, repr., New York: A.M. Kelley, 1967), pp. 121-2.

[12] Alexander Del Mar, *The Science of Money*, (New York: Cambridge Encyl.,1904), pp. 97-98. The decision is found at length in Davies Reports, and the State Trials.

[13] Thomas Hobbes, *Behemouth*, (not Leviathan!) in Francis Maseres, *Selected Tracts Relating To The Civil Wars In England Under Charles I, Part Ii*, pp. 458-59, 476, 480, 622. This can also be found in *The English Works Of Thomas Hobbes Of Malmesbury*, Collected and Edited by Sir William Molesworth, Bart. in 11 volumes, 1840, reprinted in 1962 by Scientia Allan.

[14] Thomas Hobbes, *Leviathan*, edited by Frederick Woodbridge, (1651, New York: Scribners & Sons, 1930), p. 268.

[15] James Parkes, *The Jew in the Medeival Community*, (New York: Hermon Press, 1938, 1976), p. 3.

[16] See Parkes, cited above.

[17] Parkes, cited above, p. 132.

[18] Parkes, cited above, p. 140.

[19] Parkes, cited above, pp. 222-3.

[20] Parkes, cited above, p. 163.

[21] William R. Harwood, *Yahweh and Jesus, Mythology's Last Gods*, (1983 doctoral thesis, accepted by Columbia Pacific university), Ch. 10, p. 155.

[22] Roth, cited above, pp. 15-18.

[23] Parkes, cited above, pp. 361.

[24] Cecil Roth, *History Of The Jews Of England*, (Oxford: Clarendon, 1941, p. 32-52.

[25] Parkes, cited above, p. 5.

[26] Parkes, cited above, pp. 385-6.
[27] Del Mar, *Middle Ages Revisited*, cited above, chapter 23.
[28] D'Blossiers Tovey, *A History of the Jews in England*, (1738, repr. London: Weidenfeld & Nicolson, 1990), pp. 111, 112, 114.
[29] Roth, *History of the Jews of England*, cited above, p.74.
[30] Andreas Andreades, *History of the Bank of England*, (London Univ., 1909), p. 29.
[31] Manesseh Ben Israel, *The Hope of Israel*, 2nd edition, pp.50-52, call # *KC1651, rare books room, main New York Public Library .
[32] D'Blossiers Tovey, cited above, p. 153
[33] Letter of John Dury to Samuel Hartlieb, from Kossel, reprinted in *"A Case of Conscience"* by John Dury, (London: Printed for Richard Wodenothe, 1656)
[34] D'Blossiers Tovey, cited above, p. 151.
[35] Shaw, cited above, pp. 133, 145, 150.
[36] A.E. Feavearyear, *The Pound Sterling*, (Oxford, 1963), pp. 86-87.
[37] Violet Barbour, *Capitalism in Amsterdam in the 17th Century*, (Baltimore: John Hopkins Univ. Press, 1950), p. 108.
[38] Andreades, cited above, p. 20.
[39] Christopher Hollis, *The Two Nations*, (1935, repr., New York: Gordon, 1975), pp. 19-22.
[40] Hollis, cited above, pp. 19-22.
[41] Alexander Del Mar, *History of Monetary Crimes*, (Washington: Del Mar Society, 1899)
[42] Alexander Del Mar, *Money and Civilization*, (1886, repr., New York: Burt Franklin, 1969), pp.209-10.
[43] Del Mar, *The Science of Money*, cited above, p. 79.
[44] Richard Ehrenberg, *Capital And Finance in the Age of the Renaissance*, (repr., New York: A.M. Kelley, 1967), pp. 360-70.
[45] Ehrenberg, cited above, p. 364.
[46] John Locke, *Remarks Upon a Late Ingenious Pamphlet by an Impartial Hand (Anonymous)*, p. 19.
[47] Cecil Roth, cited above, pp. 184-185.
[48] Archibald Alison, *History of Europe from Fall of Napoleon to Accession of Louis Napoleon*, (Edingurgh: William Blackwood & Sons, 1852)
[49] Hipolyte Taine, *Histoire De La Litterature Anglaise*, vol. 3, 1709.
[50] Charles Wilson, *Holland and Britain*, (London: Collins, 1946), pp. 1-20.
[51] Charles Wilson, *Anglo Dutch Commerce in the 18th Century*, (Cambridge, 1941), pp. 110-17.
[52] Hollis, *The Two Nations*, cited above, p. 63.

# CHAPTER 11

# HATCHING THE BANK OF ENGLAND

"Very few foreigners have understood the Bank...
They have always considered their notes as Government paper."
Sir Francis Baring

The "Renaissance of the North" transformed European economies in the 16th and 17th centuries, but didn't create a corresponding awareness of monetary principles. The operators on Amsterdam's Stock Exchange grew more powerful based on a metallic money system, obtained in large part by two centuries of genocide against the Central and South American Indians. Still, the inadequacy of this abundant gold and silver money was indicated by the Bank of Amsterdam's secret credits to the Dutch East India Company for over a century.

England's Free Coinage Act of 1666 removed the control over money from the Crown and the Nation, and placed it in the hands of merchants. However, the intention of those able to influence history was not to have this power so scattered, but to re-constitute it in the hands of a new and different kind of sovereign, one that would take the institutional form of a privately owned and controlled central bank.

## SCIENCE OF MONEY IS RECOVERED - BUT PRIVATELY

While the Bank of Sweden was the first western bank of issue, in 1661, it was the formation of the Bank of England that would be of historic importance. It signaled a recovery of the lost science of money. However, since it was organized for the private power and profit of a small group, it was an illicit misuse of the science for private gain, instead of for societal use, as its true nature requires. In this important sense, it represented a terrible regression in monetary development and was like placing a high powered weapon in the hands of a potential sociopath.

Furthermore, those behind the Bank promoted a false concept of the nature of money in their efforts to obscure the real nature of the Bank and its source of power. While creating abstract money, they put forward a backward commodity concept of money as gold and silver, pretending the necessity (and possibility) of converting the abstract money into metal. Openly defining money as a creation of the law - as Nomisma - would have probably brought an end to the Bank's privileged position.

Instead, the Bank of England institutionalized usury in the modern world, usury as defined in Chapter 7 - a calculated misuse of the money system for private gain.

## THE VEIL OF OBSCURITY RISES

From the formation of the Bank of England in 1694, we have a complete history of its structural elements and regulations and we have informed sources presenting the attitudes towards the Bank, including some opposing viewpoints. There are over 200 entries on the Bank of England at the great New York Public Research Library, but hardly an entry on the Bank of Amsterdam.

The first serious work on the Bank was Greek Professor Andreas Andreades' *The History of the Bank of England* in 1909. While **facts** abound on the Bank, the glue that holds them together - the motivations of those pulling the levers of power from behind the scenes - are still elusive.

## THE REAL NEED FOR A BANK

London had no official institution in charge of currency exchange, bill depositing, and payments clearing, but had hundreds of independent unregulated goldsmith/bankers. The money market was chaotic with varying rates of exchange, as it had been in Amsterdam prior to the founding of the Bank there.

Coin clipping was almost non-existent in Venice but appears to have been a primary activity of merchants in Northern Europe. Amsterdam's bank protected her coinage from the clipper, but in England the societal purpose of money was submerged to the illicit activities of the goldsmith/bankers from whom better behavior could have been expected.

In the mid 1690s the English coinage was again in dreadful condition, being clipped and about 50% underweight. There was a £40 reward for denouncing a clipper, and the clipper could go free if he denounced two more clippers. Hangings were held regularly. On just one day, seven men were hanged and one woman burned at the stake for coin clipping![1]

The goldsmiths were charging 30 to 80% yearly on small loans. According to Andreades, their greed and flagrant anti-social behavior made them "hopelessly unpopular." The public therefore wanted a bank to regulate the currency and to lower interest rates:

"The promoters could point...above all to the Amsterdam Bank...at a time when imitation of the Dutch and their institutions was exalted into a regular system."2

The Bank of Amsterdam's exact workings were not widely known in London, and several misapprehensions about it existed at the highest levels. For example, they thought that it regularly made loans.

NUMEROUS PROPOSALS FOR A BANK

From about 1650 to 1710, J. Keith Horsefield's study, *British Monetary Experiments*, counts at least 60 monetary proposals of various types including nominal money, land banks, glorified pawnshops, and tax anticipation notes. There were even two proposals for paying a negative rate of interest, anticipating some theories of Silvio Gesell. William Paterson had made at least four proposals.[3]

PATERSON'S PROPOSAL, MONTAGU'S BANK

However, it was not until the takeover of William 3rd that the plans for a bank by the Scotsman William Paterson, a relative of John Law, were adopted in 1694. Paterson was born in 1658 to moderately well off parents. Though brilliant, he received little education. In 1685, in Amsterdam, he became involved in William 3rd's 1688 revolution. Returning to London with Williams army, he became rich and influential organizing the North London Water Company, with the help of Montagu.

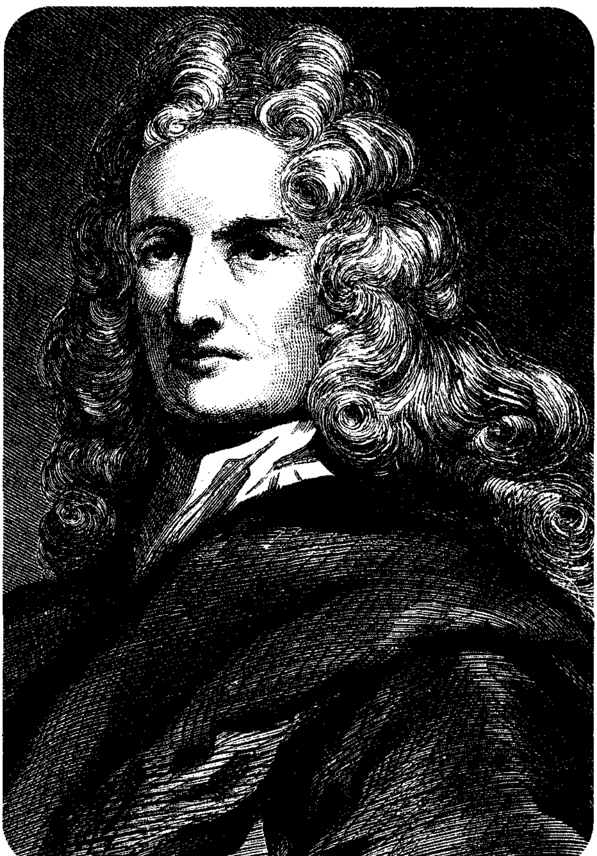
"That Paterson's plan was even adopted can be explained only by its...being sponsored by two men of unusual influence and determination - Charles Montagu (1661-1715), Chancellor of the Exchequer; and Michael Godfrey, nephew of Sir Edmundbury Godfrey," wrote Horsefield.[4]

Montagu's family name originated in the local conical hill (mount acute) on which their castle was built and they continuously held various positions of importance in England for five centuries, back to the Norman invasion. Montagu should be considered the true founder of the Bank of England. He put the plan through Parliament and Godfrey got it past London's merchants. In that process Montagu pointed out that over the previous ten years the public lost two to three million pounds by goldsmiths going bankrupt.

Paterson was more than a front man, though. His biographer Saxe Bannister says he enjoyed "intimate relations with the rich Hebrews of London and probably Amsterdam and Germany."[5] Paterson had information about the Bank of Amsterdam's real position:

"...if very good intelligence doth not lie there is but one full fourth part in money to what in truth and justice there should be, the other three fourths parts having been taken out by the magistrates to maintain the wars against the King of Spain, and so risking (if every bird should call for his own feathers) the public faith of the City."[6]

Paterson was an interesting man and not the "evil genius" some have made him out to be. He was trying to aid English society and to make a fortune doing it. It would be interesting to know Montagu's motives. He



*11a.*
**William Paterson, reputed "founder" of the privately owned Bank of England, had put forward four plans (among at least 60 proposals from others) for a new bank, after the so called *Glorious Revolution* of William 3rd. But Charles Montagu and Michael Godfrey were the powers behind the Bank. Paterson later condemned the Bank's Directors and stockholders and tried to dismantle the national debt it was building.**

was a friend of Isaac Newton, and of Edmund Halley (of comet fame). Montagu may have had convoluted reasons for inviting a Dutch Prince to take England's throne, and for creating the bank that would finance his wars and allow foreign money lenders to dominate England's money system with corrupt eastern techniques. Was he being to England what Alcmeonides was to Athens as postulated in Chapter 1 - the paid insinuator of eastern influence? Probably the situation was more complex, as is often the case in money system questions.

BANK OF ENGLAND FOUNDED IN STEALTH

Recounting the stealth with which the "revolution bank," as it was called, was pushed forward, Paterson remarked:

"All this while, 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, to prevent, or at least gradually to soften and remove, the prejudices and bad impression commonly conceived in the minds of men against things of this kind before they are understood. But the sort of people who ought, and in whose power it was to encourage this undertaking, could no ways understand it. So others seemed to understand it too much and would only have it proposed at 4 or 4 1/2 % (paid to depositors)...

"But afterward it was found convenient to put it to hazard and expose so much of the nature of the thing, and its constitution as was needful to have it espoused in Parliament."[7]

In a manner that would later set the pattern for the enactment of monetary laws in the English speaking world, the Bank of England's authorizing legislation was quietly passed, as a rider to a tax bill on shipping tonnage!

ORGANIZING THE BANK

The ostensible reason for chartering the Bank was to obtain a loan of £1.2 million in gold for William 3rd's government. The £1.2 million of shares were to be subscribed by the public in gold coin or bullion. The entire proceeds were to be loaned to the Crown at 8% interest. Once operating, the Bank would accept deposits, paying 4% on them and would issue its own bank notes which would circulate as money and which the Bank would keep redeemable in gold.

**At first these notes were to have no legal tender power but were to be acceptable and payable by the Crown for all things.**

The Bank was to be allowed to create bank notes in an amount equal to the money it lent the Government. This is another way of saying it could use government debt as its reserves or collateral. For example: the Crown wants a loan from the Bank; the Bank has no money of its own, but creates the money for the loan out of thin air, based on the reserve asset of the Crown's resulting debt to it.

This kind of reserve asset was really better than gold or silver and the promoters correctly argued that the Bank would be "founded upon a reserve that cannot fail but with the Nation."[8]

**What they did not point out was that although the Bank would be paid interest on this created loan, the Bank was completely unnecessary in this money creation process. The Government could have created its own paper notes based on the same security and not paid any interest on it to anyone!** And unlike the Bank of Amsterdam,

*11b.* **Charles Montagu, the real force behind the founding of the Bank of England. His family had played an important role in England from the time of the Norman Conquest.**

**which was owned by the Government, the Bank of England was owned and controlled by private individuals.**

IMMEDIATE OPPOSITION TO THE BANK

Substantial opposition to the Bank arose immediately. Some came from coin clippers such as the goldsmiths, who wanted no competition from the Bank. The Tories, England's landowners, opposed it as they saw the power it would give to their commercial political opponents - the Whigs. Others opposed it for sound economic, or moral reasons.

The Lower House of Parliament objected that this would be a bank in the State without being under the control of the Government.[9]

One of the monetary thinkers of the time, William Lowndes, arguing against the Bank, said:

"...who can think that posterity will be willing to pay a tax of £110,000 per annum (on the original loan) not for the support of their own government, for the time being, but to go into the pockets of private men, strangers as well as natives for money advanced to their ancestors, when it will be in their power to acquit the public of such a burden?...

"Future Parliaments will always have power, and may be told it is in their interest to exonerate the Nation of such endless burthen as this will otherwise be."[10]

Lowndes didn't realize that through constant warfare vast amounts of new debt would be piled onto the original, making it impossible to pay in gold and silver.

THE BANK'S CHARTER

The Bank was given a charter to operate for 12 years, starting July 27, 1694. Of the £1.2 million share subscription, no one person was to own over £10,000 (later 20,000) though nominee ownership through another person couldn't be stopped.

There were at first 1300 shareholders. The whole capital was subscribed in gold within three days, 1/4 of it on the first day.[11]

The shares had a provision whereby an additional 40% of par value could be called from the shareholders in gold, by the Bank's Directors.

At first it would only lend its paper notes to the Government at 8% interest, plus £4,000 annually for expenses.

The Bank also took deposits, paying 4% on them, and discounted bills for merchants. Godfrey always emphasized this activity, though it was a small part of the Bank's business.

The Bank of England was not even given the monopoly of note issue in England until 1844. Other private banks could issue their own paper notes until then.

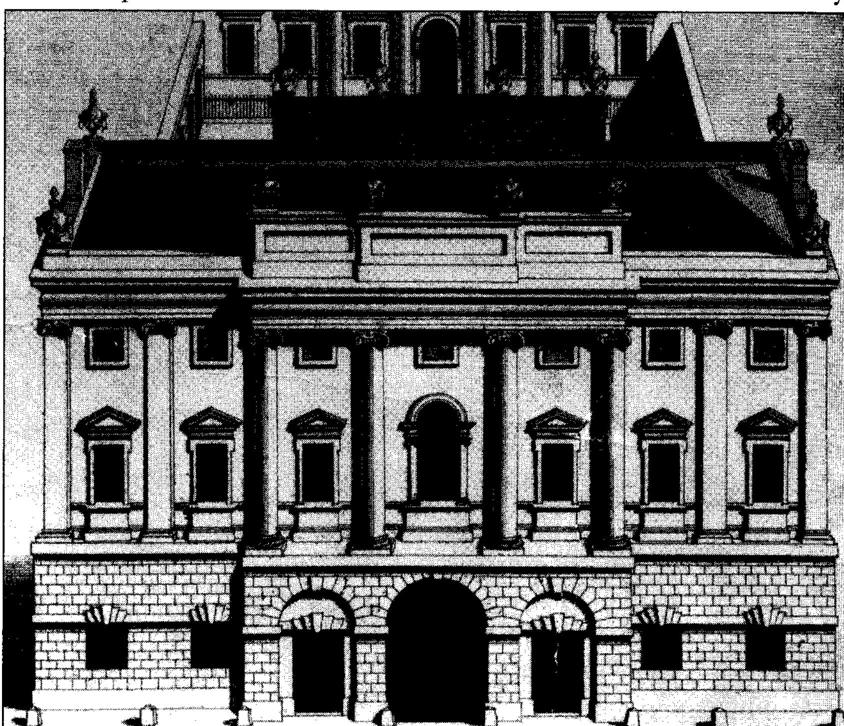
**The Bank's notes had the one supreme advantage of being accepted by the Government for all payments due, and of being paid out by the Government for all state expenses. Thus they came to be identified with the Government:**

"Very few foreigners have understood the Bank...They have always considered their notes as Government paper," wrote Sir Francis Baring.[12] Probably most Englishmen did also. Adam Smith, the "father of political economy," wrote nothing to dispel this image in the section describing the Bank's history in *The Wealth of Nations* (1776):

"The stability of the Bank of England is equal to that of the British Government...It acts...as a great engine of state."[13]

## THE TORIES' "LAND BANK" FIASCO

Opposition to the Bank continued. The Tories formed a competing bank in April 1696 - Chamberlain's Land Bank. The Chamberlain family



*11c.* **The Bank of England moved into these premises on Threadneedle Street in 1734. The complex includes two buildings in the rear.**

had been advocating such a bank since 1649, and the idea was that it would use land as a reserve asset. It would liquefy the Tories' main holding, by issuing an equal amount of paper notes for the value of pledged land. This was based on the flawed concept of liquifying property, which arises from time to time.[A]

Bank of England shares plunged from £108 to £83 in 2 weeks on this development. But in the financial battle between landowners and financiers, the landowners were hopelessly out of their element. By August 1696, subscriptions only attracted a few thousand pounds and the Chamberlain Bank was abandoned.[14]

The "landed interest" may have known all about land grabbing and squeezing peasant farmers off the land, but had few clues to the dark arts of banking. They had attempted to establish the bank in the middle of a general re-coinage, when coin was extremely scarce.

But on a deeper level, the landowners had wanted the bank in order to get money from it, not to invest money into it. While they were land rich, they were cash poor and generally wanted to borrow money. This historical case was an important indication of the eventual dominance of the landed interest by the money power.

With the Chamberlain Land bank out of the way, Bank of England shares quickly rose from 83 to £148 by the year 1700.

## FIRST FAILURE OF THE BANK OF ENGLAND

Also affected by the re-coinage, in 1696 the Bank failed for the first time, just two years after its founding, when it could no longer redeem its paper notes in coinage. Paterson insisted that the Directors use their power to call for more gold from the shareholders, and he scolded them:

"Would they be indulged at the price of the Nation's suffering?...I am sure they deserve no indulgence at all...It is not impossible that they may return to their senses and act as becomes men...therefore as we usually bid beggars work, so must I bid those men pay...They are opulent and can do it...they ought upon the first sense of distress to have called in the forty percent from each of their members...instead of calling for it,...they have borrowed 20% of their members as a favor."[15]

Paterson had resigned as a Director over such disagreements after about a year.

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A) The flaw: as new money is created to liquefy property, the value of property keeps rising with the additional liquidity, so even more money is created, etc. Eventually the bubble must burst, as interest costs grow.

## THE GOLDSMITHS ATTACK

In 1707 a conspiracy of goldsmiths, lying in wait, engineered a major run on the Bank just before its charter was to be renewed. First, Sir Francis Childs, one of the largest goldsmiths, refused to accept Bank of England notes. Then they tried to break the Bank by redeeming £30,000 of its notes which they had hoarded, knowing the Bank could not pay in coinage. The Goldsmiths had found it easy to financially bludgeon the old Monarchy but this time they were up against an opponent more experienced in the tactics of monetary brawling.

The Directors of the Bank adopted a brilliantly simple strategy: they refused to redeem the Bank's notes that were held by the goldsmiths but continued the redemption for all of their other customers!

The directors made a 20% call on their shareholders, weathered the crisis, and had their charter renewed for 21 years. The capital of the Bank was raised to £14.4 million, and they were given a monopoly on banknote issue within 65 miles of London.

The lesson is that one need not let a money system - even a bad one - be destroyed by concerted private attack if one has the ability to isolate the monetary aggressors and treat them appropriately (computers have now made that even easier).

## GRADUAL DEVELOPMENT OF THE BANK

The Bank of England succeeded where others failed because it took on each new situation as it came, without ideological commitment. It did not hesitate to break its own rules and promises when survival dictated; and it fit the Kings need for war finance.

**The bank's main protection was that its complexity kept people from understanding the true source of its power - the money creation process.** The Bank of England accumulated power very gradually. For many years its notes circulated only in London. Between 1694 and 1870, 25 years never passed without a crisis at the Bank.

The Bank's slow growth in privileges indicates that alliances with other political powers which might have speeded its development were not sought or were not possible, keeping its power base and riches within a very small circle:

"A favorite accusation was that the Bank had fallen into the hands of a close ring of related families which put their interests above those of the commercial world generally," wrote Horsefield.[16]

## RICARDO ATTACKS THE BANK'S MONEY CREATION POWER

One man who exposed the Bank's essence was an English Jew named David Ricardo (1772-1823). His clear thinking (on the Bank, not economics), simplicity of statement and courage stands out as an important contribution to understanding the Bank. In 1815 Ricardo wrote to Malthus:

"I always enjoy an attack upon the Bank and If I had the courage I would be a party to it."

In 1816 he attacked the basis of the Bank's existence:

"They have the power, without any control whatever of increasing or reducing the circulation in any degree they may think proper: a power which should neither be entrusted to the State itself, nor to any body in it...When I contemplate the evil consequences which might ensue from a sudden and great contraction of the circulation as well as from a great addition to it, I cannot but deprecate the facility with which the state has armed the Banks with so formidable a prerogative."[17]

By 1823, Ricardo worked up the courage to propose establishing an English National Bank. He explained why the government should issue its own money:

"Suppose that a million of money should be required to fit out an expedition. If the state issued a million of paper...the expedition would be fitted out without any charge to the people; but if a bank issued a million of paper, and lent it to the government at 7%,...the country would be charged with a continual tax of 70,000 per annum…"[18]

Ricardo favored a government bank because:

"It is evident therefore that if the Government itself were to be the sole issuer of paper money instead of borrowing it of the bank, the only difference would be with respect to interest: the Bank would no longer receive interest and the government would no longer pay it…It is said that Government could not with safety be entrusted with the power of issuing paper money - that it would most certainly abuse it...I propose to place this trust in the hands of three Commissioners."[19]

As a member of Parliament and successful stock trader, Ricardo's observations on the Bank were hard to ignore. Notwithstanding that the Bank had become entrenched, in 1844 several factors forced the note issuing function to be placed under a separate department of the Bank under some safeguards, and **England was no longer required to pay interest on her debt to the Bank.**

Professor Henry Dunning Macleod attacked the Bank's subterfuge in 1855:

"It is perfectly clear that its principle is utterly vicious...Stated in simple language it is this: that the way to create money is for the Government to borrow money. That is to say A lends B money on (condition) A is allowed to create an equal amount of money to what he has already lent. As a general principle what can be more palpably absurd!"[20]

And yet this same absurdity operates through the banking mechanism of the Federal Reserve System today.

## SCIENCE OF MONEY MISUSED

The founding and operation of the Bank of England demonstrated the essential elements of the science of money were known to the Dutch, Jewish, and English moneylenders who organized and controlled it, for those principles were relied upon in the functioning of the Bank.

**Two of those essential principles are that the value of money doesn't depend on the value of the material of which it is made, but on the law. "Anything may become a circulating medium; paper is as good a representative sign as gold, and in many instances it is better..." wrote Sir Francis Baring.[21]**

**Secondly, the law can normally confer the power of money onto something by making it acceptable in payments due to the Government for taxes and duties. A full legal tender declaration is not needed to make something money.**

Legal tender status, meaning that it also had to be accepted by private individuals, wasn't insisted upon by the Bank's founders and wasn't conferred on the Bank's paper notes until 1833, one hundred and thirty nine years after its founding, the same year in which it was required to publish reports on its activity.

The paramount monetary principle, calling for justice in monetary structures, was ignored.

## A CORRUPTED SCIENCE OF MONEY PRODUCES DEFORMED RESULTS

Using the correct principles of money in this immoral manner was bound to produce results harmful to humanity. The major effects of the malformed Bank Of England were continuous warfare, an unpayable debt, and excessive taxation. It spawned a speculative financial order, and led directly to horrors such as the Irish Potato Famine.

CANTILLON'S 1759 OBSERVATIONS ON THE WARS

Philip Cantillon, a Physiocrat who emigrated from France to England and was one of the more outspoken and refreshing economic minds of the mid 1700s, wrote:

"The Consequences of our present Burdens on trade are opposite to what the public was made to believe: the fallacies lay in what monied schemers and stock jobbers asserted, to wit, that profits in trade would increase in proportion to their projected taxes and paper credit

"...but the views of these persons, were their own private interests, and that of supplying the temporary Exigence of the State for carrying on a ruinous system of war, in compliment to a Sovereign Prince, who to indulge his resentment to Louis IX of France, and his attachment to the interest and profit of his native land [Holland] laid the foundation of those measures which have made the blood and Treasure of this country subservient to almost every Quarrel on the Continent

"...confining ourselves to our proper and natural strength at sea ...would not answer the selfish views of...Holland, nor give opportunities to the money-schemers of those times realizing the immense sums they acquired at the expense of the public;...hear the words of the late Dr. (Jonathan) Swift:

"'Most of the Nobility and Gentry who invited over the Prince of Orange...out of regard to the necessity of the Kingdom, and the Safety of the People but without intention of...making it a standing measure...soon after, a set of men who had nothing to lose...to fasten wealthy people to the new Government proposed those expedients of borrowing money at great premiums and exorbitant interest. It was argued that the war could not last three campaigns but while the war continuing and growing more expensive, taxes increased and Funds (the debt) multiplied every day until they have arrived at the astonishing height where we now behold them; and that which was at first a corruption is at last grown necessary.

"'...there has been brought in such a complication of Knavery and Cozenage [fraud, cheating] such a mystery of iniquity, and such a jargon of unintelligible terms to involve it in, as were never known in any age or country of the World...'"[22]

Cantillon died in 1759, and was spared the further refinements in this "iniquity and jargon of unintelligible terms" that were loosed upon the world by Adam Smith's *Wealth of Nations*. The edition of Cantillon's book read by your author was self published, posthumously. He arranged for the printing and for five London bookstores to carry the book, and printed their addresses near the title page.

WARFARE EXPANDS THE DEBT

The Bank continually supported the quarrels of the Orangist Protestant Dynasty, and supplied the Government with the means of carrying on war:

"The Bank...became the principal means of the success of the campaign in the following year, 1695, particularly in reducing the important city and fortress of Namur," wrote Andreades.[23]

(Godfrey was blown away by a cannon ball while at Namur on Bank business.)

Andreades' 1909 summation of England's national debt showed its relation to warfare:

ENGLAND'S NATIONAL DEBT (in millions of £)

| War period | cost of the war | accrued national debt |
|---|---|---|
| 1688-1697 | 32.6 million | 14.5 |
| 1702-1713 | 50.7 | 21.5 |
| 1739-1748 | 43.7 | 29.2 |
| 1756-1763 | 82.6 | 59.6 |
| 1776-1785 | 97.6 | 117.3 |
| 1793-1815 | 831.5 | 504.9 |

PATERSON ATTACKS THE DEBT

William Paterson saw the inequity of the National debt. In 1715 he had been living in poverty when Parliament voted him a huge £18,000 payment in appreciation for his contribution in founding the Bank. Nevertheless he remained opposed to the Bank's building up debt and in 1717, no doubt using some of the money Parliament gave him, he published a proposal for paying off the national debt:

"It gave so much offense to the stock jobbers that some of the meaner sort caused the book to be burnt before the Royal Exchange...Several of them of late not only applied themselves but brought up their children wholly to this present traffic in the public securities; and if that were once taken away they should thereby lose their livelihood," wrote Bannister.[24]

A century later in 1819, David Ricardo also put forward a plan to pay off the national debt. At the time of Paterson's proposal, it was really feasible to do it. By Ricardo's time, the debt had grown so immense that his plan calculated that a necessary contribution of 15% of the private property of all Englishmen would be required to pay off the debt! Needless to say his plan was not acted on.[25]

**The Bankers did not want the debt paid. Just the opposite. They wanted to build up a real interest charge into perpetuity on the "money" they had created out of thin air and loaned to the government.**

RICARDO IDENTIFIES THE BANK'S WAR MOTIVE

David Ricardo diplomatically made it clear that, while England and Englishmen suffered from the wars, the Bank gained greatly by them:

"The war, which has pressed heavily on most of the classes of the community has been attended with un-looked for benefits to the Bank; and that in proportion to the increase of the public burdens and difficulties have been the gains of that body."[26]

Of course he was aware that these "un-looked for benefits" after a century of constant warfare, were quite premeditated.

A deadly example of the public relations work the economists would do for their masters is the way Adam Smith glorified warfare:

"The art of war, however, as it is certainly the noblest of all arts..."

Adam Smith stressed the desirability of keeping an expensive standing army and grossly insulted all Englishmen by falsely blaming England's continuous warfare on the English people:

"Wars would in general be more speedily concluded and less wantonly undertaken...The foresight of the heavy and unavoidable burdens of war would hinder the people from wantonly calling for it when there was no real or solid interest to fight for."[27]

PETTY CORRUPTION AT THE BANK

The Bank of England's accounting records were not made public until 1833. Earlier, Ricardo made estimates of the expenses and income of the Bank and concluded that it was overcharging the Government for administrative functions. He wrote:

"Is it not lamentable to view a great and opulent body like the Bank of England, exhibiting a wish to augment their hoards by undue gains wrested from the hands of an over burthened people?"

The key to the bank was not the *ownership* but the *control* of it, for the Bank even abused its shareholders:

"...not only do the Bank refuse, in direct contradiction to an act of Parliament, to make a division of their accumulated profits, but they are equally determined not to communicate to the proprietors what those profits are, notwithstanding that their bye-law enjoins (it)...twice a year...Since 1797 no statement has been made of the condition of the Bank."[28]

Ricardo related the story of one shareholder, Mr. Allerdyce, who made a written demand at the meeting of March 19, 1801 that the accounts should be produced, and who was apparently ready to take the matter to the Kings Court, but died suddenly.[29]

## RICARDO'S UNTIMELY DEATH

And so too was David Ricardo dead, of an ear infection in 1823, at only age 51, within a year of putting forward his plan for the National Bank, which would have ended the privileges of the Bank of England.

## THOMAS PAINE'S ATTACK ON THE BANK

America's Tom Paine also attacked the warfare operations of the Bank of England in a 1796 pamphlet optimistically called *The Decline and Fall of the English System of Finance*. Paine discovered that each of England's successive wars was costing the nation about one and one-half times the previous war, and that there was a corresponding buildup of the national debt. Paine demonstrated that the Bank never had enough gold to cover its notes, and attempted to force a crisis there, triumphantly concluding his expose:

"I have now exposed the English system of finance to the eyes of all nations; for this work will be published in all languages. In doing this I have done an act of justice to those numerous citizens of neutral nations who have been imposed upon by that fraudulent system...I have revenged the...piratical depredations committed on the American commerce by the English government."

Thus even Paine was misled into thinking the Bank to be a government institution, but in 1797, within a year of publication of his pamphlet, convertibility of the Bank of England's notes had to be canceled and it was once again disgraced in crisis.

## THE SOUTH SEA BUBBLE - "FROM CADIZ TO THE DAWN"

The Bank of England's money system and the Whig party's version of free enterprise helped create financial and cultural conditions in which widespread speculation and dishonesty thrived. The first such wave of fraud engulfed England in 1720, thirty-two years after the Bank's founding, and became known as the South Sea Bubble. At the center of the storm was the South Sea Company (the SSC) founded on August 1, 1711 to trade with Spanish colonies in South America.

*11d.* **John Law's monetary program for France initially had highly positive results. But when the fugitive English gambler turned to grandiose schemes of power and monopoly, he quickly brought France's economy crashing down.**

The company was originally a Tory creation of the Earl of Oxford, James Harley, and was referred to as the Earl of Oxford's masterpiece, or by Whigs as "Oxford's brat which must be starved at nurse." [30]

England had been at war for 20 years. Contrary to Adam Smith's propaganda, the popular sentiment for peace was being ignored as the Bank of England dictated war policy. Lord Godolphin's request for a new war loan of £600,000 was granted, but as he was leaving the meeting, the Governor of the Bank, Sir Gilbert Heathcote remarked:

"Pray, my Lord, don't let us have a rotten peace."

"Pray, tell me, what do you call a rotten peace?" asked Godolphin.

"I call anything a rotten peace unless we have Spain..." Gilbert answered.

"But, Sir Gilbert...we are railed at every day for having a mind...to perpetuate the war, and we are told we shall be worried next winter (elections), for refusing a good peace, and insisting upon terms which it is impossible for France to perform."

"They are a company of rotten rogues that tell you so," replied Sir

Gilbert. "I'll warrant you, we'll stand by you."[31]

Harley hated the Bank of England and when the Bank's impossible terms scuttled peace with France in 1708, the Tories were able to temporarily oust the Whigs, winning the election by a two to one majority. Harley's protégé Daniel Defoe then devised the idea for the South Sea Company. The company would assume £10,000,000 of annuities debt of the British Government, on which the government would continue to pay interest to the company but at a slightly reduced rate.

The founders' notion was that, with success, those holding the debt/annuities could be convinced to exchange them for shares in the SSC. In addition to the financial benefits from converting the debt and from trade, was that this trade required peace with Spain. The landowners knew they were more vulnerable to warfare than Whig merchants. The landowners would be forced to pay for warfare while the merchants could more easily profit from it.

But the Company soon faltered. There was a six-year delay before the first slave ship sailed in 1717, and its slave trade proved unprofitable. The Company was four years old when King George I reluctantly arrived in England from his beloved Hanover, to assume his reign over about five million Englishmen.

Unable to interest George in the Company, the Directors brought the Prince of Wales in as a shareholder and Deputy Governor from 1715 to 1718. King George himself became Governor of the company in 1718.[32]

ENTER JOHN LAW (IN FRANCE)

Scotsman John Law, son of an Edinburgh goldsmith, had made a fortune in gambling by understanding mathematical probabilities at a time when few did, and by playing the odds. He had a standing offer to bet 1,000 pounds against 1 shilling, that no one would be able to throw the dice and get double sixes for six throws in a row.

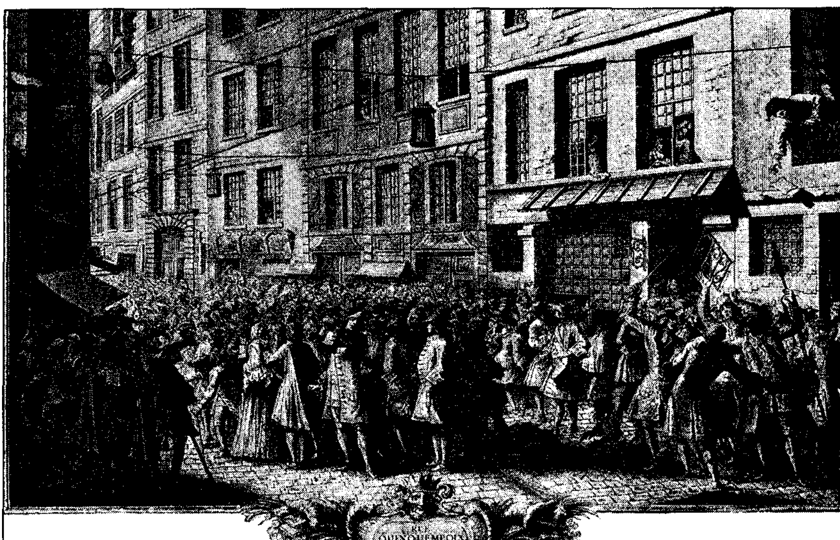
John Law was in exile in France after killing an Englishman in a duel over a woman. He cultivated a sophisticated high profile image in Paris society's gambling establishments, displaying no emotion whether winning or losing. He had studied the Bank of England and working through the French Regent, the Duc d'Orleans, had a plan to establish a French state-owned bank to extend credit throughout the realm. However, we are told that the French Council of Finance would only allow a privately owned bank, with John Law as manager, in 1717.

The introduction of Law's system of credit at first had excellent results, as the introduction of bills of credit had done 27 years earlier in the Massachusetts colony (see Chapter 14). However, John Law had a much more grandiose vision called the Mississippi Company (the MC) and its purpose was to develop the rich French lands in North America.

The MC was established in August 1717 and one hundred million Fr. Livres (5 million British Pounds) were raised at 500 Livre per share. Later that year the foundations for the present day city of New Orleans were laid in the new world.

Development proceeded slowly in spite of Law's creative efforts promoting emigration. But Law's activities also included financial manipulation of the type that recently constituted much of Wall Street's activity. He got control of France's colonial trade by acquiring the tobacco monopoly in 1718 and absorbing the (French) East India Company, the China Company, and the Africa Company in 1719.

The shares went from 300 in May 1919, to 1,000 Livres in June. In July he got the monopoly of minting the coinage and the shares rose to 2,000. In August the MC obtained the franchise of farming the taxes.



*11e.* **Crowds of speculators gathered daily on Paris Rue Quincampoix to speculate in shares of John Law's Mississippi scheme until the bubble broke in January 1720. Speculative fever and market manipulation then swept London, fueling the South Sea bubble, which burst in August. The "kid glove" treatment of the criminal South Sea Directors would set the standard for non-punishment of financial crime in the English speaking world ever since.**

The shares rose to 5,000. These acquisitions were purchased by issuing more MC stock, at the advancing prices.

Then, taking a cue from the earlier partial English debt buyout of the South Sea Company, the MC proposed to take over the French national debt of 1.5 billion livres, by loaning that amount to the government, leaving only the MC as the government's creditor, at a reduced rate of interest. Where would the company get the money? Law knew that most of the creditors being paid off by the French Government would buy new issues of the MC with this money. The shares continued climbing to 10,000; 13,000; 15,000; as high as 18,000 Livres (or 900£) per share.[33]

New fortunes, both apparent and real, were being made by the crowd that gathered daily on the rue Quincampoix from all parts of France, and even Holland, Germany, and England. However, the shares had been advancing thanks to public frenzy buying on margin using an installment plan of 12 monthly payments.

Meanwhile the bank issued at least 60 million livres of currency in 1719: five million in Spring; 15 million more in June and July; another 40 million through December. These notes were loaned out at 1 to 2 %, not to finance new production, but to buy existing assets, mainly the MC shares, forcing all prices up. Bread, meat and milk prices rose six to seven times; cloth rose 300%.

Both John Law and the Mississippi Company peaked in January 1720, when he converted to Catholicism and was made Comptroller General of France. The Company reached its zenith, faltered and began its fall. The Duc d'Orleans, acting as Regent for the six-year-old King Louis XV, regularly led a wild night life which surprisingly did not prevent him from being at work at his desk the next morning. However, he gave John Law a free hand with France's finances.

Law's private bank had always maintained a substantial reserve of gold; but on its conversion into a state bank, he confidently advised the new managers to dispense with holding reserves. Consequently by January 1720 the bank had only 2% gold reserves with which to maintain convertibility of its notes. Large MC shareholders began selling in January, and converting banknotes into gold, or using them to purchase other tangible assets. A desperate John Law convinced the Regent to issue draconian edicts to support both the Bank and the Company, including banning gold.[34] Informants were rewarded and gardens were dug up searching for the forbidden metal.

Law tried to bolster the price of MC stock by merging it with the

Bank and fixing the stock price at 9,000 livres each (450£). He was hopelessly gambling that stock holders would treat the shares as a long term investment and patiently await the development of the North American lands. But the stock had been promoted as a short term vehicle and most people were sellers. The new money created by the bank to repurchase the shares just caused more inflation. A devaluation act proved so unpopular it was rescinded and the Regent finally dumped John Law. In July France went back to her former money system of gold and silver. It would take nearly a century for France to sell her North American lands to the U.S., in the Louisiana Purchase.

John Law's activities thus seriously regressed the development of sound monetary theory and practice. Even today this sorry episode of a gambler in control of a nation's money system, low level bribery, and crass stock manipulation is still used as an arguing point by certain types of economists - as an excuse to keep governments from exercising a reasonable control over the money systems of their people. They use it to create a mythology against government-controlled money.

There are several lessons apparent from the John Law experience. First, neither credit nor money can be created in unlimited amounts, but must be within reasonable useful limits defined by the situation. Second, it is necessary to distinguish between credit or money created and used for production (creating new things), or used for mere speculation (buying existing assets). Third, a Solonic reasonableness must be observed ("Nothing too much"). But these "lessons" are so obvious that perhaps the main thing to be learned from John Law's fiasco is to never let an English gambler/part time monetary theorist, in exile for murder, run your country's money system!

MISSISSIPPI FALLING; SOUTH SEAS RISING

"... One of the curious features of the South Sea boom is that it took place during the exact seven months that Law's system disintegrated," wrote Cowles.[35]

Law had promised he'd make France the premier power at England's expense, so the English foreign office watched him closely. War with Spain in 1718 made it clear that the South Sea Company would not be doing business with Spanish colonies. Taking their cue from John Law's activities, and with the English Government and the Company in Whig hands, the Directors decided to concentrate on financial operations instead.

John Blunt, a Bible thumping director who had enviously watched Law's operations, promoted a plan to Stanhope, Sunderland and finally the Chancellor of the Exchecquer Aislabie, for the SSC to take over all the government's debt of £30 million to the general public. He dropped his idea of also taking over the £20 million owed to the Bank of England, on Aislabie's advice that the Bank would block it.

The Company would issue shares to the annuitants in place of their holdings of government debt. The idea was that they could artificially force up the company's shares and then use the company's surplus shares to pay the debt holders. On January 22, 1720 the plan was introduced in the lower House. It passed thanks to bribery totaling £1,250,000 in the form of low priced SSC shares (£100 each) promised to officials.

The shares quickly rose from £100 to £400 each! By the morning of June 2, 1720 they were at £ 890; by afternoon they were down to £ 640. Planetary physicist Sir Isaac Newton, who became Master of the English Mint, when asked whether the stock would continue rising, answered that "he could not calculate the madness of the people."[36]

The feverish speculation had warped the mentality of the people, even women, as these lines, penned by Molesworth indicate:

"The gentle passions of the mind,
How avarice controls,
Ev'n love does now no longer find
a place in female souls."

Melville reports that few "investors" really believed in the prospects of the Company. Most just wanted to buy something cheap and quickly sell it for more. In the present day this is called "the greater fool theory" of investing - that the buyer will be able to find an even greater fool to sell out to, at a still higher price.

"In vain did newspapers point out the folly of it all," he wrote.[37]

But the British public was purposely kept ignorant of the disastrous developments in France. This crucially needed information was missing! Setting the tone for future generations of Anglo-American journalism, the English press misled their readers. On June 11, 1720, The Weekly Journal falsely reported:

"Nothing is more evident than that Mr. Law has been of universal service to France and that by his genius alone he has...put the sinking credit of the nation in such a flourishing condition as was never known before..."[38]

On June 15th the SSC sold 50,000 shares to the public at £1,000 a share. By the end of June it reached its peak at £1,050. One percent margin was not unusual. In effect the Company loaned the money to buy its shares.

It had taken in £8.5 million for stock subscriptions and was owed £60 million by its stock buyers. In France the loans had come from the bank.

The SSC then attempted a hostile takeover of both the Bank of England and the British East India Company, but was rebuffed. It did succeed in taking over England's national debt, essentially using its inflated stock price to purchase the debt.

## A FRENZY OF SPECULATION

In the speculative frenzy that arose, over a hundred additional companies were launched by various promoters for an estimated 300 million pounds. These companies were for the most part fraudulently floated stocks whose prices were manipulated, sometimes by paying dividends out of non-existent earnings, using money from new stock subscriptions to pay prior investors.

John Blunt, now rich but still envious, wanted to stop these companies from sapping investors away from the SSC. On June 24, 1720, with support from Charles Townshend, Parliament passed a bill that limited the wild stock promotions. Many smaller companies collapsed; others continued their operations, intending to convert to partnerships, to get around the prohibition on companies. On July 14th a further edict was issued specifically dismissing a number of the companies' petitions for charters, and on August 23rd many of the promoters were brought before the Lord Justice and warned off!

In their hubris, the Directors also attacked four substantial and legal companies including the Royal Exchange Company, which fell from 250 to 60, and the London Assurance Company, which fell from 175 to 30! In doing this they inadvertently attacked the stock buying power of their own shareholders, who were suddenly placed in distress, and the distrust generated around the collapse of the shares of these companies would soon be transferred to the SSC itself.

## THE COLLAPSE

In July, Blunt moved to the country and began selling, unable to see how the company could last beyond November. But it didn't take that long! Like other great market tops, it occurred in August (1720). On August 24th, the fourth and final subscription of South Sea Company shares was floated at £ 1,000 per share and was entirely taken up within three hours. But the liquidity of the market was exhausted. Over the next month the shares dropped to 780, then rose to 810, fell to 500, then rose to 600, then fell to 130, and bounced up to £ 320. (Some prices in September:

the 1st : £770; the 9th : £575; the 19th - £380; the 28th - £190)

The Directors panicked. First they sought a merger with the Dutch East India Company, and were refused. They tried in vain to get the Bank of England to honor a promise to buy £ 3.5 million of the Company's bonds, but the Bank refused and called for an audit of the Company!

THE FOREIGN ELEMENT WAS POPULARLY BLAMED

The foreign element - the Jews and the Dutch, were popularly thought to play a large part in the stock manipulations. Jonathan Swift, in *A South Sea Ballad* wrote:

"A race of men who t'other day
lay crushed beneath disasters
are now by stock brought into play
and made our lords and masters."[39]

The collapse of the South Sea Bubble even caused anti-Jewish riots in Amsterdam.

PARLIAMENT ACTED

Powerful members of Parliament were deeply involved in the scandal: Robert Walpole, Charles Stanhope, Aislabie, Sunderland, and the Craggs, to name a few. Sir Matthew Decker was a director of the South Sea Company. The Duke of Buccleugh is also mentioned as a director, though not on the list of those fined. Adam Smith would later discuss the South Sea Company in *The Wealth of Nations*, without ever mentioning the bubble and the fraud![40] Why did he omit that information? Was it an effort to protect his benefactor, Buccleugh's ancestor?

Parliament was determined to punish the malefactors, and was concerned that efforts to quickly restore financial confidence in London would displace the pursuit of justice. When a bill was passed to block the Directors of the Company from leaving the country, James Craggs the younger, whose family was heavily involved in the swindle, created a sensation in Parliament by rising to challenge anyone in the House to a duel. Lord Molesworth rose to answer Craggs:

"I have had the honor to be a member of this house upwards of 30 years and never before now have known any man bold enough to challenge the whole House of Commons and all England besides. For my part though past 60, I will answer whatever the right honorable gentleman has to say within the house, and I hope that there are younger members enough who are not afraid to look him in the face out of the house."[41]

But the younger Craggs and Charles Stanhope, another guilty member of the House, died in a debauch a few days later. The elder Craggs poisoned himself before he was to be questioned.

## THE CROOKS WERE LET OFF EASY

When the honest majority in Parliament brought the swindlers to court, emotions continued to run high. Notices were placed around the courtroom warning honest gentlemen not to sit near the Directors, because many people were bringing "pocket pistols" to the meeting.[42] No one attempted such well deserved "summary justice" but a number of suicides occurred among guilty members. Parliament's job was made difficult by the attempts to shield the crooks by the Crown and especially by Robert Walpole who became known as "The Screen."

"Instead of being awarded a long term of imprisonment, only fines, the greater part of which was paid out of illicit gains, were inflicted," wrote Melville.[43]

***The gentle treatment of the swindlers set the standard for the non-punishment of financial crime in the English speaking world to the present day.*** The South Sea company continued until 1748, when its shares were converted to an annuity.

The Monarchy suffered seriously in the public mind, and rightfully so. King George I had made £86,000 profits on his SSC dealings and had sold out and gone on vacation in Germany before the collapse. Though the Whigs were inseparable from the scandal, the government, not Whig methods and amorality, took the blame.

## THE BANK OF ENGLAND AND THE IRISH POTATO FAMINE

The Irish famine arose out of the taxation needed to pay the interest to the Bank of England for the millions of new "pounds" it created out of thin air and then "lent" to the government for a century of warfare. From a total population of 8 million, 1,029,000 Irish children, women and men starved to death during a period when landlords exported more than enough food for all. Those who starved were Catholic; most of the landlords were not.

"It is interesting to notice the exact statistics of the food that was exported from Ireland during 1845. They are 779,000 quarters of wheat and wheat flour, 93,000 quarters of barley, and 2,353,000 quarters of oats - that is to say, enough to feed for twelve months every person in Ireland who died of starvation, nearly four times over," Hollis wrote, citing Mulhall's *Dictionary of Statistics*.

"These exports of food...went out to some extent, to pay the rents to absentee landlords, but, mainly, to pay the interest on the mortgages in English bank-manufactured money, which the Irish landlords, like the English landlords, had raised in order to pay the taxation required to meet the interest on the Napoleonic War Debt.

"...(In Ireland) the capital wealth was in the hands of people, whose cultural and political sympathies were with their creditors rather than with the country in which they lived.

"Lord George Bentinct suggested the putting of purchasing power into the pockets of the Irish by a scheme of railway building, but...Lord John Russell's Whig Government did not permit it. There were more profitable investments elsewhere." [45]

SEPARATION OF MONEY AND STATE

The Bank of England's separation of the monetary power from the nation was generally repeated in the English speaking countries, with unhappy results upon the entire world. In the struggles for the monetary power between the bankers and the representative legislatures of the people, the bankers understood the issue and especially how it benefited them. The rewards of any intrigues, bribery and assassinations would be large, self financing and immediate.

The representatives of the people would not always understand the complexities of the monetary power and would be vulnerable to bribery. Moreover, taking action against the injustice brought immediate personal sacrifices.

The people occasionally understood the issue, but mostly did not and in the 20th century, almost never. The ever escalating horror of the wars engendered in large part by the bankers, combined with immense national debt loads and ever increasing taxation, ground the people down, reducing their ability to rationally consider political and social questions. This further concentrated control into the hands of the malefactors.

Financial control of mass communications, starting with the pulpit and newspapers, then radio, movies, and television, to say nothing of the universities, would keep the money question out of view or out of focus.

Only the greatest expenditure of energy and money over the last three centuries have kept that form of economic organization from being defined and understood in terms of fraud and theft. That brings our study to the propaganda apparatus charged with the task of keeping this plutocratic system whitewashed.

## *Notes to Chapter 11*

[1] Andreas Andreades, *The History of the Bank of England*, (London Univ. Press, 1909)

[2] Andreades, cited above, pp. 41-42.

[3] J. Keith Horsefield, *British Monetary Experiments 1650-1710*, (Harvard Univ. Press, 1960), p. xviii.

[4] Horsefield, cited above, p. 128

[5] Saxe Bannister, *William Paterson*, (Edinburgh: W. P. Nimmo, 1859), p. 24.

[6] Bannister, cited above, pp. 68-69.

[7] Saxe Bannister, *The Writings of William Paterson*, (1859, repr., New York: A. M. Kelley, 1968), pp. 83,84.

[8] Bannister, *William Paterson*, cited above, p. 84.

[9] Andreades, cited above, Chapter 2.

[10] As quoted by Bannister, *William Paterson*, cited above, p. 73

[11] Charles Arthur Conant, *A History of Modern Banks of Issue*, (New York: Putnam, 1909)

[12] Sir Francis Baring, *Observations on the Establishment of the Bank of England*, (1797, repr., New York: A M Kelley, 1967)

[13] Adam Smith, *The Wealth of Nations*, (1776, Chicago: Great Books Collection, Encyl. Brittanica, Univ. of Chicago Press, 1952), p. 138.

[14] Andreades, cited above.

[15] Bannister, *William Paterson*, cited above, p. 89.

[16] Horsefield, cited above, p. 140.

[17] David Ricardo, *Proposals for a Secure and Economic Currency*, (London: John Murray, 1816), pp. 87-99.

[18] David Ricardo, *Works, Principles Of Political Economy*, (London: John Murray, 1876), p. 219.

[19] Ricardo, *Plan for the Establishment of a National Bank, in Proposals for a Secure and Economic Currency*, cited above, p. 99.

[20] Andreades, cited above, quoting Macleod's 1855 *Theory and Practice of Banking.*

[21] Baring, cited above.

[22] Philip Cantillon, *Analysis of Trade, Commerce, etc*, (self pub, 1759), pp. 152-5.

[23] Bannister, *Writings of William Paterson*, cited above, p. 62.

[24] Bannister, *William Paterson*, cited above, pp. 411, 415.

[25] David Ricardo, *Plan for the Liquidation of the Public Debt*, (London: 1819)

[26] Ricardo, *Proposals for a Secure and Economic Currency*, cited above, p. 23.

[27] Smith, cited above, pp. 303, 305, 411.

[28] Ricardo, *Proposals for an Economic and Secure Currency*, cited above, pp. 67, 92.

[29] Ricardo, *Proposals for a Secure and Economic Currency*, cited above, pp. 90-99.

[30] *The South Sea Bubble*, by Lewis Melville (pseudonym) by "Benjamin", (repr., New York: Burt Franklin, 1968), p. 27

[31] Virginia Cowles, *The Great Swindle - The Story of the South Sea Bubble*, (New York: Harper Brothers, 1960), p. 9.
[32] Cowles, cited above, Chapter 1.
[33] Cowles, cited above, pp. 66-71.
[34] Cowles, cited above, pp. 102-4.
[35] Cowles, cited above, p. 101.
[36] Melville, cited above, p. 58.
[37] Melville, cited above, p. 82.
[38] Cowles, cited above, p. 127.
[39] Melville, cited above, p.148.
[40] Smith, cited above, see pp. 303-358.
[41] Melville, cited above, p. 188.
[42] Melville, cited above, p. 141.
[43] Melville, cited above, p. 245.
[44] Christopher Hollis, *The Two Nations*, (1935, repr., New York: Gordon, 1975), pp. 116-17.

# CHAPTER 12

# POLITICAL ECONOMISTS: PRIESTHOOD OF THE BANKER THEOLOGY

"If an Empire were of granite, it would be ground to dust by following its precepts." Napoleon on Adam Smith

"...there has been brought in such a complication of Knavery and Cozenage, such a mystery of iniquity, and such a jargon of unintelligible terms to involve it in, as were never known in any age or country of the World..." Cantillon on The Bank[1]

"What makes all doctrines plain and clear?
About two hundred pounds a year.
And that which was proved true before,
prove false again?
Two hundred more."
Samuel Butler's Hudibras on Economics

The magnitude of the evil that was finally institutionalized in the Bank Of England by the Dutch, Jewish and English moneylenders and the House of Orange has not been fully recognized in terms of the long range problems and disharmonies it set in motion against humanity and now even the planet.

Before then, when a nation's money system was used for taxation, the revenue generally aided the society to some degree, at least in terms of what a Republic or King thought was needed. But private money systems like the Bank of England's unjustly concentrated the resources of society into a few private hands, crippling the possibility for government to function properly. This would lead to a growing contempt of government. Today, some are foolishly questioning the need for any government whatever, instead of contributing meaningfully to an understanding of its proper and necessary role.

This private monetary domination of society has stood on three crucial legs:

1. Control of the money power, the creation and regulation of money,
2. Using warfare, to force the buildup of an immense national debt, and
3. Harsh taxation on the populace, which gave the miscreants further resources.

Perhaps a fourth condition is the absence of a countervailing moral force that could identify the injustice and call for action against the corrupted monetary regime.

The underlying primary source of the power, the well pumping money night and day, was usury - the structural misuse of Society's money mechanism. It is the privilege to create and direct the flow of new credit money and to charge interest on loans of private "money" created out of thin air.

It transferred power from Society to the Money Power 24 hours a day, seven days a week whether business was good or bad; whether crops were abundant or there was drought; whether the country was healthy or beset by plague. It transferred this wealth even though its beneficiaries normally did little or nothing useful for their fellow man;[A] but systematically harmed the society to derive greater payments from it, and to render it less capable of protecting itself from their parasitical activities.

They received the wealth of nations through conquest of their money systems. Few shots were fired and no formal surrender occurred to announce to the people that they and their posterity were to be subject to this power.

Had an awareness of conquest existed, it would have been possible to legislate the monetary usurpers out of existence. Failing a political

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A) While they did provide their private and costly debt money for warfare and for the use of merchants, they had systematically blocked the government from doing so on a more reasonable basis.

solution, direct action would probably have soon done away with its primary members through revolution. But the awareness was limited to very few people.

IDEAS RULE

Men can be ruled by brute force in the short term, but over time societies are ruled through idea systems. If a new monetary rule over Mankind were to be established, a new theology that justified and sanctified the new world order would be needed. This theology would declare that order to be God's will, or an indisputable law of Nature, or crucial to the functioning of Society, and would shroud its essentials in mystery.

ECONOMISTS AS PROPAGANDISTS

Those whose job it was to understand money and guide the Nation economically, the "Political Economists," instead became the priesthood of the new Bank aristocracy, often serving as a propaganda apparatus to whitewash the monetary power structure.[B] They put forward false ideas and smoke screens on the nature of money, primitive concepts that helped entrench the bankers. Some of the most ignorant and even the insane among them were given important positions while the better minds were pushed aside or ignored by the money power.

ECONOMICS DEGENERATES FROM THE SCHOLASTICS

The Scholastics defined a moral order of business activity making extensive use of logic and arguments from A'Priori positions, as we saw in Chapter 7. This means they drew conclusions from certain principles they held to be true, with a lesser concern for empirical evidence derived from experience. Political Economy continued to stress this theoretical approach.

However, the area of economics most suitable for this approach is the morality of economic activities, which the Scholastics concentrated on, but which Political Economists did away with. Observation, more than theory, is needed for discovering how processes and things function. The political economists' methods were like the medieval doctors who theorized on how the body worked, but never dared to dissect the body and find out what was actually happening.

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B) These comments obviously don't apply to the growing number of good economists who have included a deep concern for economic justice in their work and who should be supported in spite of the great damage that most of the profession has done.

## FOSTERING A DISDAIN FOR THE LESSONS OF HISTORY

This theoretical approach was expressed as a disdain for the lessons of history. Since money systems have to be viewed over long time periods, history would be the only source to provide mankind's empirical evidence about money - his experience. While it is common to find superficial and erroneous references to historical events to justify their reasoning, this anti-historical bias of political economy has long been noted. In the preface to Prof. Andreades groundbreaking 1909 work the *History of the Bank of England*, Professor H.S. Foxwell of the University of London wrote:

"It was not the absence of official records that left so many chapters of English economic history to be first dealt with by foreigners. The main cause is to be found in the anti-historical bias of the dominant school of English official economists (most of them avowed disciples of Ricardo) their doctrinaire habits of thought and their belief that they were in possession of a set of 'principles' of universal application, led them to frown on historical research...This is really the attitude of the quack. What is curious is that in England and to some extent in France also the quack methods received the sanction of the professed practitioner, and left it to the layman to follow the sounder practice...such economic history as was written in England was...under the ban of the dominant school."

## NICOLA ORESME'S MEDIEVAL MENDACITY

Even before Calvin's Reformation there was at least one Catholic precedent to the monetary trickery of the Political Economists - the case of Nicolas Oresme (1320-82). It's hard to imagine now, but as early as the 14th century some men understood who gained and who lost by certain monetary policies even better than they do today. For example the town of Navarre's Treasurer General wrote to his King.

"Everywhere there are four sorts of men. The first…are those who have rents…(they want) money of strong alloy. The second…are those who engage in commerce, who wish for…a middle sort of money…trade is always poor except when money is in a middle state. To write all the reasons in this document would be too lengthy. The third sort of men are those who live from the work of their bodies. These would wish to have weak money…The fourth sort of money is desired by lords when they are at war (and want to pay troops in feeble coin)."[2]

Nicola Oresme's *De Moneta,* a rare treatise on money from this period, was an attempt to tilt monetary policy to favor the first group - the landlords:

"Can any words be too strong to express how unjust, how detestable it is especially in a Prince to reduce the weight without altering the mark?" he wrote.

Oresme's goal was to stop Princes from changing the coinage without approval of the landowners. He asserted that "not only that the community might [change the coinage], but also that it ought, assuming that the contribution is necessary,"[3] and he called it an easy to collect tax.

Oresme's political motive wasn't fully appreciated until Peter Spufford's recent analysis identified how he advanced the interests of his wealthy sponsors:

"Oresme's argument is purely one sided; for him the only sort of good money was strong money…as far as trade was concerned he was only interested in the…supply of luxury goods to the landowning classes." Oresme misleadingly characterized any policy other than the one his masters desired, as:

"prejudicial and hurtful to the whole civil commonwealth."[4]

The reward Oresme received for his partisanship was to be appointed Bishop of Liseaux. To give him his due, he was the first Westerner to state "Gresham's law" clearly in writing, in 1364, two hundred years before Gresham's time:

"That if the fixed legal ratio of the coins differs from the market value of the metals, the coin which is underrated entirely disappears from circulation and the coin which is overrated alone remains current."[5]

References to it coming from Aristophanes play "*The Frogs*" are not correct. That passage doesn't accurately describe the causes of the "law" but merely notes its effect.

## WALPOLE'S DISDAIN

At first it was not clear to all the financial malefactors in 18$^{th}$ century England that they need be concerned about their image. Christopher Hollis noted that Robert Walpole, nicknamed "the screen" for protecting the key miscreants in the South Sea financial scandal, was content to simply run roughshod over society. But Walpole's brother-in-law Charles Townshend understood that a "mythology," a justifying ideology, was needed to shield the corrupt system. To start providing this he wrote a sanitized Whig version of English history, *The History of Our Times*, which introduced the "Progressive Theory of History."

Townshend's "book" is impossible to find today. Hollis tells us that, in it, he asserted the theory that no matter how badly off the people's situation appeared, "the lesson of history was a lesson of steady improvement," that each succeeding generation was better off and more intelligent and aware than the previous generations. This idea created an illusion of progress, when there was the opposite.

"The important task was to capture the educational machine. Therefore in 1724 Townshend and Gibson, the Bishop of London, arranged for '24 persons…12 from Oxford and 12 from Cambridge' to preach a sermon each at Whitehall. For that sermon the preacher was to receive the considerable (payment) of £30, and none 'must hope for a share of this bounty but they who are staunch Whigs and openly declare themselves to be so.' It was a beginning," wrote Hollis.[6]

# THE MYTH OF ADAM SMITH

"He does not keep in view the moral destination of our race, nor regard wealth as a means to the higher ends of life."

Ingram

"...Adam Smith who introduced a spirit of sophistry, confusion and hypocrisy into political economy...even burned his papers on his deathbed for fear lest they should betray his true opinions."

Frederich List[7]

Though dead over 200 years, Adam Smith (1723-1790) is still the financial establishment's favorite economist. Publishing houses and television shows are named after him. His book was reverently recommended at the 1992 Republican National Convention. Normally, to achieve such notoriety requires some great discoveries or advances, but where are they? Professor Andreas Andreades wrote of Adam Smith: "In this case as elsewhere, the father of political economy discovered nothing."[8]

Understand then that we must examine Smith, not because of the accuracy or quality of his views, but because of the position the financiers have bestowed upon him. And now you will see one of the reasons why economics is called the "dismal science." In the quotations below, we have presented sections to be emphasized, in bold type.

Contrary to belief, Smith did not discover the division of labor; that was clearly discussed in Xenophon's Cyropaedia 2,000 years earlier. Smith claimed credit for developing and spreading the concepts of "free trade," but where money is properly defined as a legal institution, free trade concepts are not applicable to the operation and control of the monetary mechanism any more than they are to the operation of the law courts.

If one listens carefully, the "sirens" of Laissez Faire are clearly reminiscent of the hollow personal freedoms offered by the Oriental cults that infiltrated Rome from the 3rd century BC, as described in Frazer's *Golden Bough,* discussed in Chapter 2. Their effect was similar - destruction of the only power potentially capable of withstanding the cultural offensive from the East - the national organization.

## ADAM SMITH FALSIFIES THE GOVERNMENT'S MONETARY ROLE AS MINOR

On page 11, of *The Wealth of Nations*, while laying the groundwork before presenting his definition of money, Adam Smith took pains to falsify history to minimize the role of Government in monetary matters:[9]

"To facilitate exchanges...it has been found necessary, in all countries that have made any considerable advances toward improvement, to affix a public stamp upon certain quantities of such particular metals as were in those countries commonly made use of to purchase goods. **Hence the origin of coined money, and of those public offices called mints; institutions exactly of the same nature with those of aulnagers (wool inspectors) and stamp-masters of woolen and linen cloth**. All of them are equally meant to ascertain by means of a public stamp, the quantity and uniform goodness of those different commodities when brought to market." (We remind the reader that throughout this book, all emphasis in quotations have been added.)

This is a remarkable statement from Smith, who had lectured for years on Jurisprudence, at the University of Glasgow, "which he handled historically" according to the Great Books biographical note. He would have been intimately familiar with the celebrated 1601 Mixt Monies Case (see chapter 10), which alone disproves his mint statement.

To equate the mints with a quality control grading on wool and linen is to pretend a separation of money and State that did not exist until the Bank of England usurped the money power. That served the Bank's purpose.

**It is accurate to call this a "falsification," for on the very next page he contradicted himself, showing the great importance he placed on the institution of the mint. He exaggerated the Kingly abuse of it, and essentially condemned all past government control over money:**

"For in every country of the world, I believe the avarice and injustice of princes and sovereign states abusing the confidence of their subjects have by degrees diminished the real quantity of metal, which had been originally contained in their coins."

And he then admitted the great importance he placed on the control of the mints:

"Such operations, therefore have always proved favourable to the debtor and ruinous to the creditor and have sometimes produced a greater and more universal revolution in the fortunes of private persons, than could have been occasioned by a very great public calamity."[10]

Also please note carefully how Adam Smith has quietly slipped in the false notion that Sovereign states or governments can "feel" avarice.

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*12a.* **Adam Smith's scheme was founded on the erroneous assumption that all human action is motivated by selfishness. But basing legal systems, with their rewards and punishments, on this notion over more than two centuries has had a self fulfilling effect in creating just such a lower form of humanity.**

This childish anthropomorphic view of government is an essential part of the economists' attack on society.

## OBSCURING AND DEGRADING THE CONCEPT OF MONEY

On the next page (13), aware that his definition of money was obtuse, Smith shifted responsibility for his obfuscation on to the subject matter:

"After the fullest explication which I am capable of giving it, appear still in some degree obscure...and after taking the utmost pains that I am perspicuous, some obscurity may still appear to remain upon a subject in its own nature extremely abstracted."

Then after seven more dense and dubious pages on the value of labor - some of the most confused and confusing passages ever written - Adam Smith finally gets to the heart of his definition, on page 20:

**"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."**

Adam Smith thus ignored the existing advanced thought on money and redefined it as a commodity, taking the concept back to where it was in England before the Romans arrived. It's important in evaluating Smith's motives to note that he does not attempt to refute or even acknowledge the existence of the more advanced concepts.

## A REGRESSION TO GOLD AND SILVER BY WEIGHT

Adam Smith retrogressed the concept of money backwards from an advanced numerary based on law, not just back to a "Moneta" level of unlimited coinage, but all the way back to "Ponderata," pure metal by weight. This was even more backward than the ancient oriental monetary systems which had at least monetized agricultural commodities (see Chapter 1). Smith virtually obliterated any concept of money in the law.

Had he said this plainly, without the "value of labor" smoke screen, it would have been clear that he had no answer to the great thinkers who showed that money was not merely a commodity. But he just ignored them.

**The Bank of England had advanced to abstract paper money 80 years earlier; not in theory, but in practice. Adam Smith regressed to commodity money, not in practice, but in theory. His theory applied to their practice would cause confusion and create mystery.**

## STUDIED AVOIDANCE OF THE QUANTITY OF MONEY

Having mis-defined money as a commodity, he had to explain how gold and silver get their value. This was the purpose of his lengthy discussion on the value of labor (brace yourself):

"But though labour be the real measure of the exchangeable value of all commodities, it is not that by which their value is commonly estimated...It is more natural, therefore, to estimate its exchangeable value by the quantity of some other commodity than by that of labour which it can purchase. The greater part of people understand better what is meant by a quantity of a particular commodity than by a quantity of labour. The one is a plain palpable object; the other an abstract notion, which though it can be made sufficiently intelligible, is not altogether so natural and obvious," Smith wrote on page 13. He continued:

"Gold and silver, however, like every other commodity, vary in their value, are sometimes cheaper and sometimes dearer, sometimes of easier and sometimes of more difficult purchase. The quantity of labour which any particular quantity of them can purchase or command, or the quantity of the goods which it will exchange for, depends always upon the fertility or barrenness of the mines which happen to be known about the time when such exchanges are made. The discovery of the abundant mines of America reduced, in the sixteenth century, the value of gold and silver in Europe to about a third of what it had been before. But...a commodity which is continually varying in its own value, can never be an accurate measure of the value of other commodities. Equal quantities of labour at all times and places, may be said to be of equal value to the Laborer... Labour alone therefore never varying in its own value, is alone the ultimate and real standard by which the value of all commodities can at all times and places be estimated and compared. It is their real price. Money is their nominal price only."

TRANSLATION:

Don't be too concerned if that was not clear to you. Smith himself was confused:

He said the value of gold and silver as commodities, and as money, is determined by the labor involved in producing them - the cost of production, which he said is known to those using the money. The two-thirds drop in the value of gold and silver in the 1500s and 1600s (it was more like an 80% drop) was a result of discovering "abundant mines in America." He called labor the ultimate standard of value, because the laborer always values his own labor consistently.

But we know it's not up to a laborer how much he will be paid. He is not free to withhold his labor and to starve with his family.

Finally, Adam Smith nullified his point on the value of labor by calling it the "real" price of things, whereas he calls the money price of things only a "nominal" price. But in reality the only price that buyers and sellers are ever concerned with is expressed in terms of money.

Roman law had been clear on this subject: "Res Tanti Valet quanti Verdi Potest" - the value of a thing is what it can be sold for.

Adam Smith's claims on the cost of mining confused students for two centuries; but they never examined the cost of mining. In reality the metals were taken from American Indian societies at gunpoint, and then mined with slave labor mercilessly worked to extinction. Did the Indians place equal value on their "labour at all times and places"? Did it make any difference what the Indians thought or valued? Certainly not the many millions slaughtered or worked to death in the mines.

Even following Adam Smith's line of reasoning, how would the cost of production affect prices unless it first affected supply (quantity)? So we are back to quantity. Smith's avoidance of this protected the Bank of England because their additions to the supply of money were causing a drop in the value of money.

Over a century ago, Alexander Del Mar correctly pointed out that Adam Smith:

"Buried this (quantity) principle of political economy and subverted it to the fallacious and inequitable doctrine of metallism."[11]

Smith's use of labor as a measuring device wasn't original. John Locke used it in 1690:

"But since gold and silver being little useful to the life of man...has its value only from the consent of men - whereof labor yet makes in great part the measure..."[12]

America's Ben Franklin picked up on it in 1729, writing:

"Silver and gold...(are) of no certain permanent value

...therefore it seems requisite to fix upon something else...and this I take to be labour."[13]

But neither Franklin or Locke confused the nature of money with the value of labor, as Smith did.

NOTORIOUSLY POOR DEFINITIONS

Smith's poor definitions drew strong criticism from another obtuse political economist, Reverend Thomas Malthus, who made the famous population explosion error:

"Where Adam Smith has most failed in the use of terms is the application of the word 'real,'" wrote Malthus, referring to Smith's phantom value system pretending to distinguish real from nominal prices. In *The Measure of Value*, Malthus took Smith to task on his obscure concept of labor and value, noting that Smith's assertions on the constant value of labor:

"haven't convinced anyone, so in no works of political economy is it considered the measure of value," and Malthus pointed out that Smith himself had used corn prices, not labor, as a measure of silver's value.[14]

Malthus further complained:

"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."

However, when Malthus presented 60 "better" definitions of Political Economy terms, a definition of money is conspicuously absent. Malthus swallowed Smith's materialist definition of money as gold and silver metal, and didn't consider it necessary to dispute.

Malthus' theory that population must outrun the earth's ability to sustain it was much welcomed by the wealthy in his day. Since the poor were destined for death in any case, it was easier to justify trampling on them. Reverend Malthus twisted morality to preach that the poor must choose between what he called "vice" - having children and therefore engaging in sex - or starvation. Economics rightly earned the title of "the dismal science."

If economics is ever to become a science its terminology must be cleanly defined. But its masters seem to prefer operating in an amorphous, poorly defined environment. That's why this work concentrates on the definition - the correct identification of the nature of money - as the key building unit of economic thought.

## BETTER MONETARY THOUGHT EXISTED BEFORE AND AFTER ADAM SMITH

For a breath of fresh air, here are some of the advanced views on money and banking, which Adam Smith ignored:

### BISHOP GEORGE BERKELEY (1735)

The philosopher George Berkeley (1685-1753), Anglican Bishop of Cloyne, Ireland, was a thoughtful and accurate commentator on money. He wrote the *"Querest"* in 1735, a work organized as questions that suggested their own answers.[15]

Recognizing the great importance of the definition of money:

"Q.441) Whether it doth not much import to have a right conception of money?"

Aware of the "cycle of money:"

"Q.445) Whether in the rude original society the first step was not the exchanging of commodities, the next a substitution of metals by weight as the common medium of circulation, after this the making use of coin, lastly a further refinement by the use of paper with proper marks and signatures? And whether as it is the last so it be not the greatest improvement?"

Recognizing that money is an abstract power, not just a material commodity:

"Q.23) Whether money is to be considered as having an intrinsic value, or as being a commodity, a standard, a measure, or a pledge as is variously suggested by writers? And whether the true idea of money as such, be not altogether that of a ticket, or counter?"

Recognizing the quantity aspect of money's value, Berkeley put forward the basic concept that prices are determined by the proportion of money to goods:

*12b.* **Philosopher George Berkeley, Anglican Bishop of Coyne, Ireland, presented sound monetary concepts in his 1735 book of questions "Querest." He showed far superior understanding and honesty on money than Adam Smith did 40 years later, even though Smith had read Berkely's book.**

"Q.24) Whether the value or price of things be not a compounded proportion directly as the demand and reciprocally as the plenty? Q.25) Whether the terms Crown, Livre, Pound, Sterling etc. are not to be considered as exponents or denominations of such proportion? And whether gold and silver and paper are not tickets or counters for reckoning, recording and transferring thereof?"

And again an accurate view of the abstract power of money being independent of its material:

"Q.35) Whether power to command industry of others be not real wealth...and whether money be not in truth, tickets or tokens for conveying and recording such power, and whether it be of great consequence what materials the tickets are made of?"

George Berkeley argued that while the idea of a Bank was good, *it must be a publicly owned and controlled institution:*

Q.220) Whether national banks are not found useful in Venice, Holland and Hamburg?

Q.221) Whether (those banks) are not in the hands of the people?...

Q.225) Whether the notes of such publick (banks) would not have a more general circulation than those of private banks, as being less subject to Frauds and Hazards?

Berkeley's questions 244 and 254 indicate the Bank's propaganda campaign. Q 254 probably refers to the South Sea Bubble scandals:

"Q.244) Whether it be just to apprehend Danger from trusting a National bank with power to extend its credit, to circulate notes which it shall be a felony to counterfeit, to receive goods or loans,...when these powers are no other than have been trusted or many years with the Bank Of England, although in truth but a private Bank?

Q.254) Whether a view of the ruinous Effect of absurd schemes and credit mismanagement so as to produce gaming and madness instead of industry can be any just objection against a National Bank?

Do you feel the different effect on your mind, of reading Berkeley as compared to deciphering Smith? Henry George, in 1897 after doing years of research into economic treatises while writing his *Science of Political Economy*, would describe the effect on the mind of reading economics as:

"the destruction of the capacity for thinking which results from the industrious study of a logomachy made up by monstrous piecing together of words which abolish and contradict one another...(where) hollow phrases count with it for thoughts."[16]

### JOHN RAITHBY (1811)

John Raithby's 1811 book, *The Law and Principle of Money,* also presented intelligent views on money. Raithby understood that the money question is in large degree a struggle not only of ideas but against a particular gang of people:

"There is in this country a set of men of small account indeed in respect of rank or fortune, or honourable pursuit, but bold, busy, factious and intriguing; attached to no legitimate party in it; industrious in vilifying its character; and decrying its resources; the secret and determined enemies of its honour and repose...Nations like individuals may fall the victim of imaginary as well as of real disorders. It is important therefore that delusions however highly sanctioned which have a necessary tendency to unsettle the government and to agitate the people be dispelled."

**Raithby demonstrated that "intrinsic" value is an illusion as regards money; pointing out the not so obvious fact that intrinsic values of substances can only be realized through the actual consumption of those substances.**

"To maintain that it is of the essence of money to possess intrinsic value is to maintain a doctrine highly inconvenient and dangerous."[17]

Aware of the abstract and legal nature of money, Raithby clearly showed that money was not a part of the national capital of a country. He demonstrated that legal money could be made of anything. His purpose was the "establishing of a paper money, in place of 'precious metals'" to be issued by the state and made a legal tender. These concepts thus strike directly at the heart of the Bank of England by embracing the concept of Nomisma, issued by government.

### SEIZING SOCIETY'S MONEY POWER

Adam Smith was strongly opposed to the chartering of any corporation, except for banks. Predictably he only supported the creation of money through private banks such as the Bank of England. But this too is purposely made obscure in Smith's presentation. He was strongly opposed to any banks issuing small denomination notes. These would have been more helpful to the average citizen than large denomination notes, which could only be used by relatively wealthy persons. Adam Smith raises the art of obfuscation to new levels when he presents a "self criticism" of his own proposal to restrain banks from issuing small notes:

"To restrain...a banker from issuing such notes, when all his neighbors are willing to accept them, is a manifest violation of that natural liberty which it is the proper business of law not to infringe, but to support."[18]

This is an example of the "sophistry" that Friedrich List discussed; Adam Smith's expert use of the English language to spread confusion.

ADAM SMITH HATED GOVERNMENTS ISSUING MONEY:

However, when it came to a public national bank, a government issuing money, then even one penny was too much for Adam Smith! When the American Colonies issued their own money, currency that was highly appreciated, even demanded by the colonists, Adam Smith went off the deep end, in his condemnation of it:

"...and though the colony governments paid no interest to the holders of this paper, they declared it to be and in fact rendered it a legal tender of payment for the full value for which it was issued."

Then after whining that this paper was not redeemable in gold for several years and should therefore have been discounted, Adam Smith continued:

"To oblige a creditor, therefore to accept of this as full payment for a debt of a hundred pounds actually paid down in ready money was an act of such violent injustice as has scarce, perhaps, been attempted by the government of any other country which pretended to be free."(p.141)

Smith's stated distinction between government paper and Bank of England notes was that the Bank's notes were convertible to gold on demand. But he downplayed that the Bank was often in crisis, and had often suspended redemption of its notes into gold. Convertibility was only theoretical; the Bank never had enough gold to convert a major part of its notes. We find no similar criticism from Smith of the Bank of England's failures.

**The vehemence of Smith's attack distracts his readers from understanding that government paper need not be convertible into "money" when the government paper is the money!**

The real difference was that in the American colonies the money was being created by society for everyone's benefit. The Bank of England on the other hand was privately issuing money mainly for the benefit of those who controlled it.

SMITH SMEARS ENGLAND AS TOO
"SLOTHFUL" TO ISSUE MONEY

Having dispensed with the Colonies, Adam Smith obscured the question of who in England should hold the money power by mis-defining the question as whether the English Government should be in the banking business for profit:

"The profit of a public bank has been a source of revenue to more considerable states. It has been so not only to Hamburg but to Venice and Amsterdam. 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..."

"The orderly, vigilant, and parsimonious administration of such aristocracies as those of Venice and Amsterdam is extremely proper, it appears from experience, for the management of a mercantile project of this kind. **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."** (p.358)

Adam Smith's assault is one of the most vicious, elitist attacks on society as can be found anywhere from a "man of letters." In Smith's smearing of the English Government we see the beginnings of the relentless attack on society - the belittling and smearing of its organizational form - government, an attack which has been ongoing for over two centuries, and has reached such a destructive and dangerous level today. *Most importantly, Smith also inadvertently illuminates the primary purpose of this attack - to keep the monetary power in private hands: the apparent motive for these attacks is to keep society from properly controlling the money system.*

He said the government is too "slothful" and "thoughtless" to be allowed to run a National Bank based on sound principles. Therefore, he supports a private Bank of England based on outwardly "vicious" principles with a dismal track record to match? That is what still passes for logic among many economists.

CHARGING INTEREST ON PRIVATELY CREATED MONEY

The French philosopher Charles de Montesquieu, writing in 1748, accurately condemned the Bank of England's type of funding system:

"Some have imagined that it was for the advantage of a state to be indebted to itself: they thought that this multiplied riches by increasing the circulation. **Those who are of this opinion have I believe confounded a circulating paper which represents money...with a paper**

*12c.* **the philosopher Charles de Montesquieu (1689-1755) noted important differences between money and credit. While he strongly supported the circulation of paper money, he condemned the circulation of paper credit.**

**which represents debt. The first (is)...extremely advantageous to the State; the last can never be so...**(for)...the taxes raised for the payment of the interest of the debt are an injury to the manufacturers...It takes the revenue of the State from those who have activity and industry to convey it to the indolent; that is it gives facilities for labor to those who do not work, and clogs with difficulties those who do work...These are its inconveniences. I know of no advantages."[19]

John Law and Adam Smith, the supporters of bank privilege, both evaded this question. Law's evasions are sharp and clean:

"The more they loan the more they add to the numerary value; which is of benefit to the country, both because of employment...and extension of trade,"[20] and,

**"(The money) is added to the money of the Nation, without interest: for what is pay'd by the borrowers is got by the proprietors...All may share in the establishment of the bank through ownership of it."**[21]

But consider how much more appropriate and convenient for all to benefit, if the Bank of issue is a National Bank, owned and operated by society.

## SMITH'S EVASION OF THE INTEREST PROBLEM

Adam Smith artfully dodged this problem. He discussed it as paying interest on the public debt, not on money creation, and by repeatedly referring to the holders of the public debt as the "creditors of the public," Smith created the impression that something real was lent as in a normal perception of a creditor-debtor relationship. While some of the government bonds were purchased by individuals with "real" assets, a major part was purchased by the Bank of England with new money created out of thin air specifically for the purpose. Smith defended the bankers:

"In the payment of interest of the public debt, it has been said, it is the right hand which pays the left...it is only a part of the revenue of one set of the inhabitants which is transferred to another, and the Nation is not a farthing poorer."

"This apology is founded altogether in the sophistry of the mercantile system, [it seems that John Law's patent medicine was no longer selling after 56 years]...To transfer from the owners of...land and capital stock, from the persons immediately interested in the good condition of every particular portion of land, and in good management of every particular portion of capital stock, to another set of persons (the creditors of the public, who have no such particular interest), the greater part of the revenue arising from either must, in the long-run, occasion both the neglect of land, and the waste or removal of capital stock...a creditor of the public, considered merely as such, has no interest in the good condition of any particular portion of land,...or stock...The practice of funding has gradually enfeebled every state which has adopted it...Is it likely that in Great Britain alone a practice which has brought either weakness or desolation into every other country should prove altogether innocent?" (p.412)

This problem must have been too strong for Smith to ignore, but look at his strange choice of words:

The process may not be "altogether innocent," question mark! Beaware that Smith has depicted the negative effects of interest payments on the debt as falling upon landowners and business owners, rather than the whole nation. These two groups were not at the top of the Nation's popularity list. By 1776 more than half of England's population lived squalidly in cities.

Adam Smith and David Ricardo shared nearly the same view of money as gold and silver, but Ricardo applied it honestly and was strongly opposed to fleecing the nation by charging interest on the national debt. Contrast Smith's obtuse explanations with Ricardo's clear statement:

"It is evident therefore that if the Government itself were to be the sole issuer of paper money instead of borrowing it of the Bank, the only difference would be with respect to interest: the Bank would no longer receive interest and the Government would no longer pay it..."[22]

THE BUILDUP OF AN UN-PAYABLE NATIONAL DEBT

For Adam Smith to even admit that it was the Bank of England that made the huge debt possible in the first place, reads like his teeth are being pulled:

"...the Bank of England...either by voluntary discounting those bills at current value...frequently enables government to contract a very large debt of this kind."

Frequently enables? Voluntary discounting? Indeed!

While Smith asked whether the debt could be "altogether innocent," others clearly stated the danger. William Paterson, David Ricardo and others put forward plans to end the national debt (see Chapter 11). Adam Smith whined impotently about the debt but made no proposals for eliminating it, conveying the message that nothing can be done about it.

# THE QUANTITY OF MONEY AND INFLATION - HOW MUCH MONEY IS NEEDED?

JOHN LOCKE'S VIEWS

Locke (1692 - 1718) made some very clear monetary observations in 1692:

"For mankind having consented to put an imaginary value upon gold and silver by reason of their durableness, scarcity and not being liable to be counterfeited; have made them by general consent, the common pledges, where men are assured, in exchange for them to receive equally valuable things to those they parted with...they having as money, no other value, but as pledges to procure what we want...and they procure what we want or desire only by their quantity, it is evident that the intrinsic value of silver and gold, used in commerce is nothing but their quantity."[23]

This paraphrases Aristotle and Paulus; Locke was a lecturer in Greek at Oxford. In 1718 Locke confirmed:

"Observe well these rules: It is a very common mistake to say money is a commodity...." On the distinction between money and metal: "Bullion is valued by its weight...money is valued by its stamp." and "a great abundance of money in a nation will sink it to the general value of the metal and take away the use it had in exchange, as money, according to the value put upon it."[24]

In these statements Locke described money as an abstract social institution, not based on commodity value, though he made it clear that the inaccurate commodity view of money was common. He saw the inverse relation of the quantity of money in circulation to its value and estimated the right amount of money for a society's circulation:

"But what proportion that is, is hard to determine, because it depends not barely on the quantity of money but the quickness of its circulation....but to make some probable guess, we are to consider how much money it is necessary to suppose must rest constantly in each man's hands, as requisite to the carrying of trade."

SIR WILLIAM PETTY'S VIEWS

William Petty held a commodity view of money as being only gold and silver, but was still aware of how the quantity of money in circulation determined its value. In 1682, he wrote his famous *Quantulcunque Concerning Money*[25] in the form of questions and answers:

"**Question#24:** May a nation, suppose England, have too much money?
**Answer:** Yes: as a particular merchant may have too much money, I mean coined money, by him.
**Question #25:** Is there a way to know how much money is sufficient for any Nation?
**Answer:** I think it may be pretty well guessed at…so much money as will pay half a years rent for all the lands of England and a quarters rent of the housing and a weeks expense of all the people, and about a quarter of the value of all the exported commodities sufficient for that purpose..."
**Question #26:** What remedy is there if we have too little money?
**Answer:** We must erect a bank which well computed doth almost double the effect of our coined money

THE FABLE OF THE BEES

In 1714, Bernard Mandeville's *Fable of the Bees* theorized:

"The quantity of circulating coin in a country ought always to be proportioned to the number of hands that are employed."

JOHN LAW'S VIEWS

John Law was born in Scotland. His father was a goldsmith/banker. Though John Law's schemes were implemented in France, as described in Chapter 11, his views were well known in England. Law was much ridiculed from the early 1720s onwards when his system brought the French monetary order to grief. But he understood banking better than his contemporary Political Economists, for Law was not an academic but a promoter familiar with the real workings of banking. His published works have to be viewed as a branch of his fortune seeking.

Around 1720, John Law wrote:

"As money increased, the disadvantage and inconvenience of barter were removed; the poor and idle were employed, more of the land was laboured, the product increased, manufactures and trade improved, the landed men lived better and the people with less dependence on them."[26]

Law was one of the first to shift the discussion away from money and on to credit, being aware that private banks of issue were really dealing in credits. Law is not interested in giving us a definition of money; he is interested in profiting from his knowledge of the definition. To him, anything that can be brought into circulation, will be money:

"They may be brought to work with credit...(if) the credit have a circulation...then that credit is money, and will have the same effects on home and foreign trade."(p. 11)…"An addition to the money adds to the value of the country."

The tone of his book gives the impression of a lack of concern with the over-issue of such "credits." But John Law understood the importance of the quantity of money affecting its value:

"If money were given to a people in greater quantity than there was a demand for, money would fall in value; but if only given equal to the demand, it will not fall in value."(p. 11)

DAVID HUME'S VIEWS

David Hume had a good understanding of the way quantity affects the value of money. In 1752 he wrote:

"...The prices of everything depend on the proportion between commodities and money, and that any alteration in either has the same effect either of heightening or lowering the price. Increase the commodities they become cheaper. Increase the money, they rise in their value...If the coin be locked up in chests it is the same thing with regard to prices as if it were annihilated...It is the proportion between the circulating money and the commodities in the market, which determines prices."[27]

**John Law, and Hume understood that money's role was active, not passive, upon economic activity. In other words, a growing**

**supply of money could cause economic activity to expand, not just prices to rise. Money is an active force.** Commenting on the observed effects of increasing the supply of money, Hume wrote:

"We find that in every kingdom into which money begins to flow in greater abundance than formerly, everything takes on a new face; the merchant becomes more enterprising, the manufacturers more diligent; and even the farmer follows his plough with greater alacrity and attention."[28]

Hume spoke out forcefully against "imaginary paper money" and wanted to "banish paper money forever," yet he understood a Government bank was superior to a private one:

"A public bank by this expedient - gives some advantages."

## JOHN STUART MILL

Mill also incorrectly believed the cost of production determined the value of gold and silver, and at the same time held a more accurate (though contradictory) view regarding the quantity of money. In 1828 he wrote:

"The value of money, other things being the same, varies inversely as its quantity."[29]

This is a general guideline, but it's not that simple, because "other things" don't remain the same. The quantity of money also alters economic conditions.

## ADAM SMITH ON THE BANK OF ENGLAND OVER-ISSUING MONEY

Almost everyone else knew, but Adam Smith argued to the contrary, that it was impossible that the Bank Of England's creating money could cause prices to rise. Smith argued:

"The increase of paper money, it has been said by augmenting the quantity and consequently diminishing the value of the whole currency, necessarily augments the money price of commodities. But as the quantity of gold and silver, which is taken from the currency, is always equal to the quantity of paper which is added to it, paper money does not necessarily increase the quantity of the whole currency." (p.140)

To justify this fantastic conclusion, Smith constructed a primitive physical analogy to represent the flow of money in an economy, the forerunner of what today would be called an economic "model." Smith likened the circulation of money as flowing in a channel. The amount of money necessary to fill the channel depended on commercial activity, roughly:

"That sum being then sufficient for circulating the whole annual produce of their land and labour." (p.125)

Smith then asserted that when paper notes are put into circulation by the Bank of England, an equal amount of the gold and silver component of the channel overflows:

"The channel of circulation will remain precisely as before... Whatever therefore is poured into it beyond this sum cannot run in it, but must overflow...It will therefore be sent abroad, in order to seek that profitable employment which it cannot find at home. But the paper cannot go abroad...because it will not be received in common payments. Gold and silver therefore to the amount of [the added Bank currency] will be sent abroad. They will exchange for foreign goods...but the revenue of idle people, considered as a class or order cannot in the smallest degree, be increased by these operations of banking."

Sorry, Smith fans, but it won't wash. What if foreign banks were also printing foreign banknotes? Where would the gold and silver then overflow to? To Disneyland?

Nearly everyone else realized that adding substantial amounts of paper notes to the money supply caused the value of money to drop. Why not Adam Smith? Again, Smith's theories protected those "idle people" of the Bank of England.

WHY DO ADAM SMITH'S IDEAS PREVAIL?

Adam Smith's views suited England's financial/political plutocracy, so they lionized him. According to Friedrich List, at least one English Prime Minister, William Pitt made a habit of carrying Smith's book under his arm, promoting it. It's beyond the scope of this work to examine other areas of Adam Smith's weak economic reasoning; several excellent writers have already done that, and I recommend the following:

The 8th Earl of Lauderdale (John Maitland), writing from 1804, demonstrated the error of Smith's treating a nation's economy the way one would treat an individual, or household, or shopkeeper's economy. Lauderdale showed that production, not parsimony, was the crucial factor in building national wealth.[30]

Friedrich List's *National System of Political Economy* exposed much of Smith's *Wealth of Nations* as a political tract. List pointed out that notably lacking in Smith's *Wealth of Nations* was a role for the nation. He showed that while England aggressively promoted Smith's "free trade" ideas to other countries, she herself pursued a very different policy, 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.[31]

John Rae's *Sociological Theory of Capital* was published in 1834. The economist Irving Fisher called it "Truly a masterpiece, a book of a generation or a century." Rae showed the error of Smith's theoretical method and showed that national wealth is created very differently from the way Smith preached.[32]

ADAM SMITH'S SELFISHNESS ERROR

We should not leave the subject of Smith without discussing his most vicious error, as made clear by both Buckle and Henry George. George wrote:

"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 phenomenon 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… here (in *The Wealth of Nations*) he makes men naturally selfish; formerly, he made them naturally sympathetic…indeed Adam Smith will hardly admit common humanity into his theory of motives.'"[33]

When Buckle says formerly he made them "sympathetic," he is referring to Smith's only other work, published earlier, *The Theory of Moral Sentiments*, in which Buckle concluded that Smith had done the opposite - there he excluded selfishness!

Consider the negative impact on humanity of Smith's selfishness assumption. Supporters of his doctrine argue that it is merely in harmony with the nature of humanity. But clearly, 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 initial false conception 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 couldn'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 on economic matters what has been called 'economic man,' without getting *what is really a monster, not a man,*"[34] Ecco Homo - circa 2000!

ADAM SMITH vs ENGLAND:
SUPPRESSING THE 1810 BULLION REPORT:

The bankers used Smith's monetary ideas against England, in suppressing the 1810 "Bullion Report." In 1810 the Bank had £ 3.2 million of gold, and £ 32 million of banknotes circulating, not including credits on the Bank's books.

Prices rose about 40% from 1797 to 1809, a very unusual event for that time, and by 1810 there was strong political opposition to the Bank. The report of Parliament's Bullion Committee placed the blame on the note-issuing activity of the Bank of England and the country banks. Yet the people of the Bank stonewalled the Committee and cited Adam Smith's monetary theories to defend the Bank.

An exasperated Ricardo wrote: "It will scarcely be believed fifty years hence, that Bank Directors and Ministers gravely contended in our times, both in Parliament and before committees of Parliament, that the issues of notes by the Bank of England...had not nor could have any effect on the prices of commodities, bullion or foreign exchanges."[35]

Parliament ignored the conclusion of its own committee and would not blame the Bank; yet thoughtful observers understood that bank created money was responsible.

## THE BANK SHIFTS FROM EXPANSION TO CONTRACTION

Faced with a situation where continued expansion would not be tolerated, the Bank could have stabilized at the new monetary level, but instead, the people of the bank quietly but purposely shifted to contraction of the money supply.

If expansion had concentrated power into the Bank, would contraction disperse that power? No - for in the expansion process, the nation, through the government, as well as private parties became indebted to the bank and to the other bondholders.

Contraction or deflation would limit additional indebtedness but would also increase the value of the currency. This would make the existing debts much more difficult or even impossible to re-pay.

Monetary contraction began in 1811 as the Bank's discounts (moneys advanced on commercial paper) fell from £20 million, down to £4 million in 1817. In 1819, Sir Robert Peel's monetary committee adopted the conclusions of the Bullion Committee, and Parliament passed an Act to resume convertibility of the Pound into gold within four years. Convertibility had been suspended from 1797.

However, instead of adjusting the gold standard to reflect the inflated pound and maintain the existing money supply and existing value relations in commerce, they decided to further contract the currency in order to make it convertible into gold at the old higher rates.

SILVER DEMONETIZED

Further aggravating this deflation, silver was de-monetized in 1816 for payments over two Pounds, rendering existing silver coinage and bullion un-usable in large commercial transactions.

These moves caused a dramatic contraction of the currency - a great deflation. One commodity index which had been at 142 in April 1818 fell to 84 in September 1822.[36]

The greatest effect was on the British National Debt which stood at over £800 million. About 80% of this debt was entered in the Napoleonic Wars after 1800 in inflated pounds.

But the Bank, and other **"fund holders...were to receive full payment of interest and principal in an appreciated currency even though the producer might be made bankrupt.** Petitions came in...from all over the country...begging that something might be done to modify the effects of the resumption of (gold convertibility)," wrote Feaveryear. He noted that:

"Member of Parliament Charles Western...argued that most of the National Debt, and indeed of the existing private long term debts as well, had been contracted in a depreciated currency...."[37] Western wanted to lower the standard, and asked Parliament to examine how contraction had shifted money from the public and from the producers, to the bondholders. His proposals were defeated. It was not until the early 1830s that a recovery was in progress.

"CURRENCY SCHOOL" VS THE "BANKING SCHOOL"

In the aftermath of this monetary rape of England, a debate was staged among political economists, perhaps as a distraction. They argued over whether only printed banknotes should be considered as currency created by the Bank (the Currency School), or whether the bank credits created on a client's account were also to be considered as money (the

Banking School). Remember from Chapter 7, that the Scholastics had also missed the monetary importance of bank created credits?

Clearly the Bank-created credits also added to the money supply, so the "Banking School" was correct. But the confusion of the "debate" was compounded by the Currency School accurately maintaining that the quantity of money was the main factor determining prices, and the "Banking School" maintaining that it was the price level that determined the quantity of money.

This false debate tactic would be used time and again by bankers under fire. That it is still taught as an important monetary debate indicates the artificial and superficial nature of monetary thought and training.

**There was one real monetary issue to debate: whether the power to control the money system belonged in private hands or in Society's hands. Political economists avoided that debate then, and they continue to avoid it to this day.**

**In Summary**

Early on, the financial establishment realized the need for a justifying theology. The political economists who served as its priesthood kept the Scholastics' theoretical method but quickly eliminated moral considerations, which were not in the interests of their sponsors.

Adam Smith's *Wealth of Nations* canonized this amoral version of economics. We have shown that, in large part, his purpose was to keep the money issuing power from being properly instituted in governmental hands, so that private money issuers could assume it.

This single condition would be enough to hamstring governments and promote the concentration of power and wealth into a financial establishment. These persons claimed those powers not by their nobility of spirit, or their excellence of production or other valuable services performed for society, but mainly by their ability to perpetrate this fraud on their fellow man.

We saw how Adam Smith's viewpoint generally supported the Bank of England, and how his ideas were used against England on several occasions in order to serve a particular clique or gang. We found better monetary reasoning both before and after him. But even worse than any deception was Adam Smith's false concept of humanity's nature as motivated only by selfishness. That error has had self fulfilling consequences.

## *Notes to Chapter 12*

[1] Philip Cantillon, *Analysis of Trade, Commerce, etc*, (London: self published, 1759), pp. 152-5.

[2] Guillaume le Soterel, Treasurer General of Navarre to King Philippe of Evreux, quoted by Beatrice Leroy, *Théorie Monétaire et Extraction Minière en Navarre Vers 1340*, in *Revue Numismatique*, (6th series, XIV, 1972), p. 110, as quoted by Peter Spufford, cited in 4 below, pp. 305-6.

[3] Nicola Oresme, *De Moneta*, (repr., New York: T. Nelson, 1956), pp. 19, 31, 36.

[4] Peter Spufford, *Money and its Use in Medieval Europe*, (Cambridge Univ. Press, 1988), pp. 300-10

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[6] Christopher Hollis, *The Two Nations*, (1935, repr., New York: Gordon, 1975), p. 38, based on C.H. Firth in the *English Historical Review*, January, 1917.

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[9] Adam Smith, *The Wealth of Nations*, (1776, Univ. of Chicago Press, Great Books Collection, Encyl. Brittanica, 1952) vol. 39.

[10] Smith, cited above, p. 12

[11] Alexander Del Mar, *The Science of Money*, (NY: Cambridge Encyl.,1904), pp. 20-30.

[12] John Locke, *An Essay Concerning Civil Government*, (Great Books, cited in 9 above), vol. 35, p. 35

[13] Benjamin Franklin, *Writings, A Modest Inquiry into the Nature and Necessity of a Paper Currency*, (Philadelphia, April 3, 1729), p. 126.

[14] Malthus, *Definitions In Political Economy*, (London: John Murray, 1827), p. 60.

[15] George Berkeley, *Querest*, (1735, London: Innis, Davis & Hitch, 1750), Sketch of National Bank Omitted.

[16] Henry George, *The Science of Political Economy*, (1898, New York: R. Schalkenbach Foundation, 1992), p. 346, quoting Schopenhauer.

[17] John Raithby, *The Law and Principle of Money*, letter to MP. W. Huskisson, (London: Cadell & W. Davies Strand, 1811), pp. x, 113.

[18] Smith, cited above, pp. 135-9.

[19] Charle Montague, *Spirit of the Laws*, transl. by T. Nugent, (Great Books, cited in 9 above), vol. 38, Chapter 18, # 17.

[20] John Law, *Considerations Sur Le Numeraire*, (Paris, 1852).

[21] John Law, *Oeuvre de Law,* vol.1, p. 54.

[22] David Ricardo, *Plan for Establishing of a National Bank*, as quoted by Andreades, cited above, p. 417.

[23] John Locke, *Some Considerations of the Consequences of the Lowering of Interest*, reprinted in Mcculloch's *Principles of Political Economy*, and in

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[25] William Petty, *Quantulumcunque Concerning Money*, (London: A&P Churchill, 1682)

[26] John Law, *Money And Trade Considered*, (London: W. Lewis, 2nd edit, 1720), pp. 10, 11.

[27] Hume, *Essays, Moral, Political, and Literary*, as quoted by L. Laughlin in *Principles of Money*, cited above, pp. 316-18

[28] Hume, *Essays*, cited above, p. 313.

[29] John Stuart Mill, *Principles of Political Economy*, p. 30, in Laughlin, cited above.

[30] James Maitland, 8th Earl of Lauderdale, *The Nature and Origin of Public Wealth*, (1804, 1819, repr., New York: A.M Kelley, 1962). Also see his *Three Letters to the Duke of Wellington*, (1829, repr., New York: A. M. Kelley, 1965).

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[33] Henry George, cited above, pp. 89-90.

[34] Henry George, cited above, p. 99.

[35] Ricardo, *Works*, *Principles of Political Economy*, (London: J. Murray, 1876), p. 214

[36] A.E. Feavearyear, *The Pound Sterling*, (Oxford, 1963 edition, describing the Gayer-Rostow-Schwartz price index), pp. 222-225.

[37] Feaveryear, cited above, pp. 222-225.

# CHAPTER 13

# THE USURY DEBATE CONTINUES

"Economists are the pests of Society
and the persecutors of the poor."
Thomas Michael Sadler

The banker's power over society arose from the privilege to create and control the nation's money supply for private profit instead of for the common good. Just as important as the power to create money is the ability to reduce or overly restrict the circulation and cause a deflation, as was done in England after the 1810 Bullion Report. This crime was as harmful to society as it was profitable to the bankers and bondholders. This is only one of many historical examples demonstrating the negative effects of privately controlled money systems.

The Bank of England's operations signaled a recovery of the lost science of money. But to hold those privileges in a private institution required promoting a primitive commodity concept of money as exemplified in Adam Smith's work. Had the dominant view of money been Berkeley's or Raithby's, as an institution of society based in law rather than a commodity, in all likelihood the society would have understood the need to control its money system and not allowed the Bank to do so.

To assure that the definition of money and other key economic ideas were kept obscured, the educational establishment was compromised. Over time an orthodox "thesis" of Capitalism was assembled and promoted to protect the financial villains. **Thus the Bank's policy was to quickly re-bury the science of money.**

## UNIDENTIFIED USURY

The way the Bank of England manipulated England's money system can be described as usury - the taking of something for nothing through the structural misuse of the money mechanism. This may be called "macro usury," because it operates on the entire money system, affecting all exchanges and property and the labor markets. Over time it creates a socially unacceptable and mathematically impossible economic equation and if not fought brings society to a form of economic slavery.

But it was not identified as usury, even by those who saw through its public image. Also there was no Church, legal system or tradition to oppose it. The Protestant denominations had in large part been neutered on the problem of Usury, one of the most important moral and economic dangers that any society ever faces. Only the authoritative but distant body of thought of Aristotle and the Scholastics warned of the problem from across the centuries.

## THE "THESIS" OF CAPITALISM

We will consider Adam Smith's *Wealth of Nations,* including his mis-definition of money and related errors and truths as the "Thesis" of capitalism; the quasi official statement setting forth its basic principles of operation. It was mainly a rationalization and justification for practices already in existence, and a power structure already in place.

Promoted by interested parties, this "Thesis" (or theory) could stand for a time on its own plausibility. However, since it was false in several essential elements; over time, scrutiny and critical attention would expose its falsehoods making them difficult and expensive to support. Furthermore, such attacks would be accurately seen as a search for truth, against vested interests. These "errors" could not simply be removed from "Thesis," for they were the very source of the unearned benefits and the raison d'être for "Thesis" in the first place.

## ENGLAND IN TROUBLE - THE VISIBLE EFFECTS OF USURY

Most economic theorists were content to accept and spread these economic sophistries. But those willing to open their eyes could directly observe that Englishmen were being destroyed by these economic theories. Natural leaders such as William Cobbett were deeply concerned over the deteriorating condition of the people. Cobbett, a careful observer, wrote in 1806:

"Experience, daily observation, minute and repeated personal inquiry and examination, have made me familiar with the state of the labouring poor, and sir, I challenge contradiction when I say, that a labouring man in England with a wife and only three children, though he and his family be economical, frugal, and industrious in the most extensive sense of those words, is not now able to procure himself by his labour a single meal of meat from one end of the year unto the other."[1]

Against these conclusions were thrown sweeping assertions to the contrary such as Macauly's 1830 statement that he was:

"unable to find any satisfactory record of any great nation, past or present, in which the working classes have been in a more comfortable situation than in England in the last thirty years."[2]

Such bold lies emanating from and promoted by the financially powerful in positions of influence, could only be decisively refuted by careful empirical studies, which were difficult to carry out. There were no research libraries where the actual data could be readily examined.

As noted, the Reverend and economist Thomas Malthus didn't dispute the appalling condition of the people but used it to preach that they must choose between having enough food and having sex! The English poet Carlyle would later refer to such Malthusian beliefs as "pig philosophy."

ROGERS AND ARISTOTLE TO THE RESCUE

Professor J.E. Thorold Rogers, an Aristotelian scholar at Oxford, carefully researched what had happened to the English worker from just after the break with the Catholic Church. From Roger's arguments and indisputable statistics emerged this terrible conclusion:

**"I contend that, from 1563 to 1824, a conspiracy, concocted by the law and carried out by parties interested in its success, was entered into to cheat the English workman of his wages, to tie him to the soil, to deprive him of hope and to degrade him into irremediable poverty...**For more than two centuries and a half the English law and those who administered the law were engaged in grinding the English workman down to the lowest pittance, in stamping out every expression or act which indicated any organized discontent, and in multiplying penalties upon him when he thought of his natural rights."[3]

In 1844 the productivity of the English people was higher than ever before, but "the condition of the people was vastly worse than it had ever been before in recorded history," wrote Hollis. From Henry VIII's time to 1866, Rogers found that while prices had risen twelve fold, agricultural wages merely doubled.

Hollis notes that Rogers' study showed that:

**"The gentlemen of England, so far from being those leaders of the nation toward a finer and a wider freedom which the progressive history had represented them to be, were revealed as...the trickiest and most rapacious class ever known among men."[4]**

When Rogers' Professorship expired in 1867, he stood for re-election:

"They put up against him a certain Bonamy Price, a man who had until recently been off his head, though Professor Hewins in the *Dictionary of National Biography* assures us that by the time of the election he had completely recovered," wrote Hollis.[5] The mentally unbalanced Price was elected, and the Aristotelian master Thorold Rogers lost his professorship.

CHRISTIANITY JOINS IN THE "RESCUE"

It was at this point, Hollis contends, that elements of Christianity and Judaism came to the temporary rescue of the common Englishman:

"The first effective attacks on the system" came not from economists but from the religious motives of three men: Thomas Michael Sadler, a Methodist, Lord Shaftesbury (Ashley), an Evangelical, and Disreali, a Jew. Hollis wrote:

"They (Sadler and Ashley) were not always able to clearly understand nor wholly to explain how it was that society could survive if

*13b.*
**Thomas Michael Sadler, an unsung hero of 19th century England, who for religious reasons helped alleviate the vicious treatment of England's working children and women.**

the poor were raised above the level of starvation. It was their glory that this inability did not stop them for an instant."(p.138-9)

"It was Sadler who saw that the law of charity must be re-introduced as the law of life, even though [according to the political economists] it destroy society. It was Disraeli who saw that it would not destroy society but would save it from destruction...Deep down in his soul there was the immemorial teaching of his ancient race against usury - the teaching of Moses and the teaching which traditions of the race take back beyond Moses to the identification of usury with the serpents bite of Eden. ['neshec']"[6]

CHARLES DICKENS' "SCROOGE"

Reflecting the inability of the English financial establishment to continue their policies of depraved indifference toward humanity, Dickens' great novel about "Scrooge" *(A Christmas Carol)* was published in 1843. Though part of the book's message was exceptionally constructive, the course of action envisioned in the story - the self-reform of the evil-doer - rather than his destruction, was perhaps the wrong message, judging by what has happened since then.

THE TEN HOURS BILL

One of the significant achievements of this reform movement was the "ten hours bill" of 1847 which reduced from twelve to ten hours the daily time that women and children could be forced to work in the factories. Even the corresponding cut in pay they endured did not diminish that at last they were being considered as human beings, not just factory fodder. Then, from the mid 1800s to the very early 1900s, the 300-year decline in the English working man's standard of living reversed and his condition improved.

Hollis may have overestimated the relief gained for humanity against the bankers, when we observe the continuing manipulations in the monetary area, and factor in World War II. However, his conclusion on the importance of a true spiritual motive stands up to our test, for it would be the Church of England that finally led to the nationalization of the Bank of England in the mid 20$^{th}$ Century (see Chapter 20).

THE BETTER ECONOMISTS OPPOSE THE BANK

John Wade noted in1842 that:

"All the great authorities are in favor of a change (Ricardo Mcculloch, Tooke, Torrens, Thompson, William Clay, Porter, Jones Loyd,)...to have given in their [support] to a National [government] Bank."[7]

Wade's conclusion was that there should be:

**"One issue [of money] by one bank under one authority;...for the good of the country alone."**

Unfortunately, these experts, while able to see the iniquity of the private Bank of England, didn't have the clear concept of money needed to fight the Bank effectively, and the Bank was able to maneuver around them. For Wade's statement also called for the money to be "nearly fixed in amount and convertible...." But at least the Bank could no longer ignore them.

USURY IN TROUBLE

The structural usury of the Bank of England's operations, what we term "macro-usury," was under heavy attack. Even simple usury, defined as the riskless charging of interest, had never been on firm ground. Calvin, who had delivered Protestantism to usury in 1536, was not enthusiastic about it (see Chapter 7). In 1822 it was still under formal ban of the Catholic Church, and the Old Testament and the Koran condemn it to this day.

We saw the attempted justification for macro usury in Adam Smith's attacks on government money in Chapter 12. The changing secular rationale for simple usury can be traced through the writings of Bacon, Petty, Smith and Bentham. One recurring theme was the need to attack Aristotle:

Francis Bacon (1561-1626) wrote:

"Few persons have spoken usefully of usury" (*Works, Essay # 41*)[8] and he quickly attacked Aristotle, first by criticizing the Scholastics for:

"...almost having incorporated the contentious philosophy of Aristotle into the body of Christian religion" (*Works*, p. 209),

"Aristotle...full of ostentation..."(*Works*, p. 800)

and

"Aristotle so confident and dogmatical" (*Works*, p. 850).

In his ignorance, or his zeal to justify usury, Bacon went so far as to criticize Aristotle as:

"barren of the production of works for the benefit of the life of man."[9]

Yet Bacon does not refute, or even discuss, Aristotle's monetary views. And when he gave his justification of usury, Bacon fell flat:

"Usury is a thing allowed by reason of the hardness of men's hearts. For since there must be borrowing and lending, and men are so hard of heart as they will not lend freely, usury must be permitted..."

Bacon was aware of problems caused by usury:

"(Its inconveniences)...It makes fewer merchants...(and) makes poor merchants. It bringeth the treasure of a realm or state into few hands." (*Works*, p. 785)

Bacon's "solution" was to propose setting two usury rates - a general rate at 5% which anyone could charge, and a special higher rate which would require a license. But this would clearly only further accentuate the concentrating power of usury.

Bacon's inability to understand the abstract nature of money was combined with a crass materialistic instinct for personal gain. In 1621 Parliament charged him with corruption while holding an office of the Crown and fined him the astronomical sum, for the time, of £40,000 and had him imprisoned.[10]

Regarding the controversy on whether Shakespeare's works were really authored by Bacon, it's not possible to reconcile Bacon's statements on usury with Shakespeare's views against usury eloquently presented in the *Merchant of Venice*.[A]

Bacon's usury rationale was not to be incorporated into the "Thesis" of capitalism, for William Petty had redefined it in economic rather than psychological terms:

"Question #28: What is interest or use money?

Answer: A reward for forbearing the use of your own money for a term of time agreed upon, whatsoever need your self may have of it in the meanwhile."[11]

This justification has a definite ascetic religious overtone to it, with a desire to reward self denial. It is the rationale still given in the 20th century by some members of the Austrian School of Economics.

Adam Smith refined Petty's rationale:

"The interest or the use of money. It is the compensation which the borrower pays to the lender, for the profit which he has an opportunity of making by the use of the money. Part of that profit naturally belongs to the borrower who runs the risk and takes the trouble of employing it; and part to the lender, who affords him the opportunity of making this profit."[12]

Smith overlooked that the lender gets his profit even when the enterprise loses. Part of the problem with simple usury would disappear, if instead of being based on the "opportunity" for profit it were based on the

A) Shakespeare's *Merchant of Venice* was based closely on another play *Il Pecorone*, written by Ser Giovani of Venice, in 1378.

actual profit made, as in the business structures Venice used successfully for many centuries.

## BENTHAM'S USURY RESCUE SQUAD

In 1787 Jeremy Bentham wrote *In Defence of Usury.*[13] The title indicates continuing problems for usury.

Though written only 11 years after Smith's *Wealth of Nations*, the decadence of Bentham's thought and manners is evident. Bentham, the son of a rich lawyer, and a lawyer himself, not an economist, had none of the surface politeness normally evident in Smith's work. In fact, in the above work he can be fairly and justly described as something of a pig.

First Bentham created the present mis-definition of usury:

"The taking of a greater interest than the law allows...(or) the taking of greater interest than is usual." (p 8)

Ignoring hundreds of years of the Scholastic's work, Bentham continues:

"...there can be no such thing as usury: for what rate of interest is there that can naturally be more proper than another....Custom therefore is the sole basis which either the moralist in his rules and precepts, or the legislator in his injunctions can have to build on." (pp 9-10)

Thus it seems Bentham has achieved the purpose of his book in only nine pages, by defining usury out of existence! When he wrote, the legal rate was 5 or 6 percent per year. It had been constantly reduced from the 10% when Henry the 8th legalized it. Bentham neglected to inform his readers that usury was illegal before then.

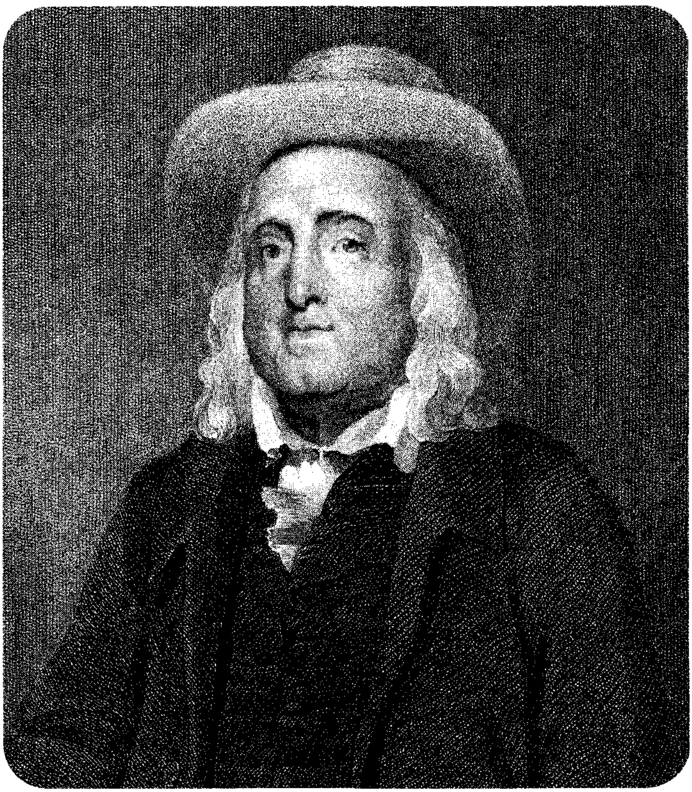
The predatory nature of Bentham's philosophy is apparent in his justification of the harmful effects usury has on common people. He dismissed it writing that: (paraphrasing closely) *simple people will be robbed more in buying goods than in borrowing money.* (p 41) Why were Bentham's works touted, then and now, as economic or philosophic achievements?

Bentham laid bare his motive in an attack on Aristotle:

"...'to trace an error to its fountain head is to refute it' said Lord Coke. If our ancestors have been all along under a mistake...how came the dominion of authority over our minds?" (p 95)

One would naturally think he is going to cite the strong Old Testament admonitions against usury - particularly since Bentham was Jewish - but no, he ignores those prohibitions completely in the book. He is after Aristotle:

"Christians were too intent upon plaguing Jews, to listen to the suggestion of doing as the Jews did. The anti-Jewish side of it found no inopportune support in a passage of Aristotle: that celebrated heathen, who in all matters wherein heathenism did not destroy his competence, had established a despotic empire over the Christian world. As fate would have it, that great philosopher with all his industry and all his penetration, notwithstanding the great number of pieces of money that had passed through his hands...[and]...notwithstanding the uncommon pains he had bestowed on the subject of generation, had never been able to discover in any one piece of money any organs for generating any other such piece. Emboldened by so strong a body of negative proof he ventured at last to usher into the world the results of his observation in the



*13c.* **Jeremy Bentham's 1811 "Defence of Usury" wasn't very convincing. Like those supporting usury before him, he launched a vicious attack on Aristotle. Bentham had his body preserved in alcohol, and donated to the British Museum/University College of London. He can still be viewed sitting at his desk, fully clothed (thank God!) in a roll out display.**

**That's utilitarianism for you!**

form of an universal proposition, that all money is in nature barren...A consideration (he didn't consider) though a Daric would not beget another Daric,...yet for a Daric which a man borrowed he might get a ram and a couple of ewes...and the ewes...would probably not be barren." (p 98-101)

Thus Bentham spread the same erroneous justification that Calvin used. The Scholastics had clearly shown it was the "ewes," not the coins, that create more ewes. Couldn't these fellows read?

THE "ANTI-JEWISH" PLOY

So to be anti-usury is to be anti-Jewish! Instead of criticizing the Jews for the activities of some of their most powerful members, activities viewed as harmful by all prior moral systems, *especially the Jewish Bible,* Christians should simply have joined in the infamy and done as the Jews did! Instead of considering that some of the Jews were acting anti-socially, Bentham attacked Aristotle for corrupting the Christians!

Bentham's attack is an early example of the anti-Semitism smokescreen to protect improper monetary activities, a tactic that has been used to block the search for knowledge for decades in America. To brand a concept as "anti-Semitic," whether it is or not, has been sufficient to destroy theories without examining their merits.

It should be noted that Aristotle never mentioned the Jews in any of his writings. In attacking Aristotle's condemnation of usury, aside from his abusive manner, Bentham found it necessary to avoid discussing Aristotle's concepts of the social/legal nature of money.

Until reading Bentham's book, the author had thought the greatest crime any British citizen committed against the Greeks was taking the "Elgin" Marbles from the Acropolis. However, Bentham's slimy attack on Aristotle does supersede it.

In the rest of the work Bentham tried to associate some of the positive attributes of thrift with money lending! Finally, compound interest was forbidden in Bentham's day and he urged its legalization.

Charles Haney's *History of Economic Thought* classified Bentham as a "hedonist" - one who asserts that individual actions are solely motivated by a desire for pleasure and avoidance of pain. "The community, he [Bentham] states, is a fictitious body, and the common interest can be understood only by what is the interest of the individual...nothing ought to be done or attempted by the government...his rule of government is 'be quiet'."

THE PROBLEM OF MONO-THESIS

If this is what passed for economic writing "in defense of usury" - in defense of "Thesis" - then capitalism's thesis was in deep trouble. It was rabid on usury, rabid against Aristotle and rabid against the Government.

JOHN WHIPPLE'S ENLIGHTENED ATTACK ON USURY

In America, legal and monetary thought advanced rapidly in the work of John Whipple, a Rhode Island lawyer. In 1836 Whipple wrote *The Importance of Usury Laws - An Answer to Jeremy Bentham*, which was finally published in 1850. He used correct principles of money to attack Bentham's errors:

"A just system of currency has its foundation in equal rights. Equal rights are based on principles in harmony with the laws of nature."

Justice and principles. How few lawyers think in those terms today! Combining the concept of rights (born in the new world) with an Hellenic or Classical view of harmony with nature (born in ancient Greece) led Whipple to his conclusions.

Whipple argued theoretically from the nature of money:

**"(the purpose of money is to facilitate exchange). It was never intended as an article of trade, as an article possessing an inherent value in itself, any further than as a representative or test of the value of all other articles. *It undoubtedly admits of private ownership but of an ownership that is not absolute, like the product of individual industry, but qualified and limited by the special use for which it was designed.*"** And,

**"The power of money then over every other article, arises out of the artificial character given to it by the state, and not out of the qualities of the material of which it is composed."[14]**

Whipple also argued from experience, giving examples of the documented problems that occurred when usury laws were removed in Massachusetts, Indiana and other states. Whipple thus combined sound reasoning with attention to the real facts.

Whipple was not frightened off by Bentham's anti-Semitic smokescreen. Remarking on Bentham's assertion that anti-usury laws were due to prejudice against the Jews, Whipple said:

*"The real truth is that this feeling which he calls prejudice is the result of the moral instinct of mankind."*

THE MATHEMATICAL IMPOSSIBILITY OF LONG TERM USURY

Finally, Whipple did the obvious. He calculated the exact mathematical results and showed the impossibility of sustaining long term compound usury:

"If 5 English pennies...had been...at 5 per cent compound interest from the beginning of the Christian era until the present time (say 1850), it would amount in gold of standard fineness *to 32,366,648,157 spheres of gold each eight thousand miles in diameter, or as large as the earth.*" (p.48 )

That's 32 billion Earth sized spheres! In other words, it's not possible in nature. Thus riskless usury even at moderate rates cannot work over long time periods. Of course, 1,800 years is a long time and no one worries about a money system lasting that long. But the example gives insight into the kind of unnatural forces at work when a geometrically compounding demand is placed on society or nature. Something will have to give; the money system must break or society must break, or both.

The high development of Whipple's concepts just ten years after Jefferson died suggests the existence of an advanced American literature on monetary theory and we continue to search for other traces of it. For a work of this thoughtfulness and quality to remain unpublished for fourteen years, and unknown through 19th and 20th century America, does indicate a deliberate repression of monetary thought.

THE MONETARY REFORMS OF 1844

Bentham's book was republished in 1842 as the debate on the Bank of Englands' abuse of power reached a climax. But the growing pressure was too intense. From 1811 the Bank's policies had not only continued to impoverish the lower levels of English society but had put the squeeze on many wealthier elements as well. Under the 1844 reforms, the Bank:[15]

* was forced to stop charging interest on the Government's "debt" to it: "It is exempt from paying interest on its debt to the Bank so long as the charter of the latter is continued," wrote Andreades.[16] Ricardo's attacks finally bore fruit.

* a separate note-issuing department was created. Gold backing was required for issuing any more than the £15 million in printed currency then outstanding. Silver could once again be used as metallic backing by the Bank, up to 20% of its total metal; but silver coinage was not re-monetized.

* fixed the note issue of other banks at the average outstanding during the prior 12 months.

This well meaning legislation meant the Bank could no longer act with impunity. However, it was also a disastrous formula for continued deflation, and had to be temporarily rescinded in 1847. Further deflation was then avoided mainly by the fortuitious discovery of gold in California in 1849.

## THESIS, ANTITHESIS AND SYNTHESIS

Though the blow struck against the Bank was not a mortal one, the dangers of capitalism's "Thesis" standing alone were apparent. The note issuing power of the Bank was severely limited; but for a time the nearly identical process of creating loan credits on its books was not so limited. Yet there was still the danger that the whole scheme of the private central bank could be unwound and relegated to history's dust bin of errors. Suppose society were to demand restitution and seize the malefactors' ill-gotten wealth?

It might be more convenient for the people of the bank if the false "Thesis" were under attack not by truth but by a similarly false "Anti-Thesis." Such a debate between two partially false opposing ideas could be easier to manage than continually supporting one partly false idea standing alone.

Those rejecting "Thesis," instead of finding truth, could be distracted by, or channeled into a partly false "Anti-Thesis." Attacks upon "Thesis" could be more easily characterized as coming from a competing, perhaps even dishonest doctrine rather than a search for truth. The very idea of a "search for truth" or a more accurate view of the world loses importance as the debate degenerates into forms of tribal warfare with sides chosen mainly for emotional reasons, or financial affiliations. Over time, frustration and anger is whipped up on all sides to assure a good fight, and. forgiveness is made impossible as agent provocateurs carry out atrocities against the ideological representatives of both sides.

A wasteful expenditure of misdirected energy ensues, allowing an underlying "Synthesis" to be maintained by the behind-the-scene managers of the debate. Thus we are not examining "thesis, antithesis and synthesis" in their Hegelian sense as a progression of history, or even necessarily as definite events, but rather as a potential tool of societal control.

## MARX AND ANTI-THESIS APPEAR

Indications of an "Anti-Thesis" appeared in rough form in 1848 when Karl Marx and Frederich Engels, active in revolutionary political debate, were commissioned by the Communist League to write the Communist Manifesto.

Its opening lines seem more likely to raise apprehension than to persuade: "A specter is haunting Europe - the specter of Communism. All the Powers of old Europe have entered into a holy alliance to exorcise this spectre ("Pope and Czar, Metternich and Guizot, French Radicals and German police-spies")...Where is the party in opposition that has not been decried as Communistic by its opponents in power?"

That opening statement indicates some of the old "non-bank" powers of Europe were being drawn into a de-facto "pro-bank" alliance by a perceived threat to order and property.

## MARX IN TRADITION OF ENGLISH POLITICAL ECONOMY

Today's popular image of Marx as an opponent of democracy and order arose in part from later propaganda:

"Marx, the flower of classical English political economy, was less a revolutionary than his followers have thought and far more a revolutionary than his adversaries have feared," wrote Terence McCarthy, noting that Marx's intent was to show that the principles of "political economy" themselves led inexorably to socialism.[17]

A refined "anti-thesis" appeared with *Capital*[A]. Conceived as a work in six volumes, Marx wrote in the style of English political economy, spending his last 20 years reading economics at the British Museum's Library. McCarthy noted that: "Adam Smith was the overwhelming influence upon the mature Marx. Marx's approach to economics, although deeply affected by Ricardo, was basically Smithian." (p. ix)

Like Smith, Marx's method is primarily theoretical analysis. Like Smith, Marx is internationalist (cosmopolitan) rather than nationalist. Both Marx and Smith largely ignored the role played by the Jews in financial history. Marx was of Jewish ancestry, but his father converted to Evangelical Lutheranism and Karl was baptized at age six.

## MARX'S CONCEPT OF MONEY MIRRORS ADAM SMITH'S

The similarities on some key issues of these two "founders" are

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[A]Marx (1818 - 1883) wrote *Capital* while living in the slums of Soho, plagued by illness, poverty and tradesmen's lawsuits. Volume 1 was published in 1867. Working from Marx's notes and outlines, Engels finished vol. 2 in 1885 and vol. 3 in 1894. Before dying Engels asked Karl Kautsky to write vol. 4. But it proved impossible to complete as directed: "(Marx's) material...was disorganized and disjointed," noted McCarthy, citing "Marx's none too clear wishes." (p v)

Suzanne De Brunhoff's *Marx On Money* notes a "seemingly insurmountable obstacle: the texts were scarcely edited by Marx....Engels points out...'the greatest difficulty was presented...we had no finished draft, not even a scheme whose outlines might have been filled out, but only the beginning of an elaboration - often just a disorderly mass of notes, comments and extracts.'"(p 73) striking, especially their common views on the nature of money. Both Karl Marx and Adam Smith shared virtually the same primitive commodity concept of money; they were both essentially "metallists:"

"...Throughout this work, I assume for the sake of simplicity gold as the money-commodity. Gold, the equivalent money par excellence," wrote Marx.[18]

The same view is repeated in vol. 2: "For the sake of simplicity we regard only gold as material for money," (v. 2, p. 547) and in vol. 3:

"It should always be borne in mind that...money - in the form of precious metal - remains the foundation from which the credit system, by its very nature can never detach itself." (v. 3, p. 592)

Like Smith, Marx began his magnum opus with a discussion of money. Like Smith, Marx thought the value of gold was ultimately based on the labor needed to obtain it, but they differed slightly on exactly how this came about: "This value (of money) is determined by the labour-time required for its production," wrote Marx, meaning the average cost in labor, of the commodity used as money. (v. 1, p. 106). For Smith's similar views see Chapter 12.

Marx credited Benjamin Franklin with originating this idea that value was measured by labor, but John Locke seems to have preceded Franklin in this view by some years.

Regarding paper money, Marx wrote: "Paper money is a token representing gold, or money...only in so far as paper money represents gold, which like other commodities has value, is it a symbol of value." (v. 1, p. 144)

These views are repeated often in the first sections of vol. 1, where Marx makes his primary exposition on money. Addressing scholars who question whether those were Marx's real monetary views, De Brunhoff warns against considering Marx's discussion there as merely hypothetical,

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Kautsky remarked "[Engels] had initiated me into the reading of this almost indecipherable manuscript…whoever has seen Marx's handwriting (knows) how hazardous the interpretation of many of his hieroglyphics…."(v. 4, p xxiii) Nevertheless, Kautsky completed vol. 4 and it was published in German in 1904. McCarthy thought vol. 4 "ought to have appeared as the first volume of *Capital*. Had Marx organized his work in that way, the extreme difficulty which even the earnest student of economics encounters in entering the realm of abstraction into which he is introduced on page 1 of volume 1 of *Capital*, would largely have been overcome." (p v) But volume 4 was not available in English until 1952, when McCarthy translated it.

In addition, the final section of vol. 1 on the accumulation of primitive capital would have been better at the beginning of that volume.

as a "theory of a non-theory of money," leaving the theory of money to be resolved elsewhere in the four volumes. We agree.

Consistent with their materialistic view of money, neither Smith nor Marx discuss the pivotal *Mixt Moneys of Ireland* case of 1601, described in Chapter 10, which re-affirmed the legal nature of money.

Though both thought the values of gold and silver were determined by the labor needed to produce them, neither checked on the costs of mining. Marx had William Jacob's classic 1830 study on the precious metals and even mentions Jacob's report that mining costs were higher than the values assigned to the metal as money (v. 1, p 47). But Marx puts that aside, preferring to rely on his theoretical method.

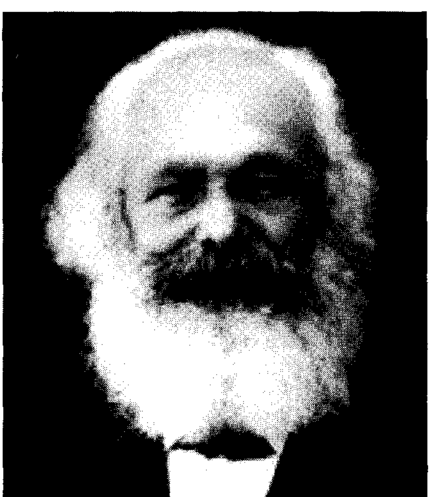
ON THE QUANTITY OF MONEY

Like Smith, Marx ignored how the quantity of money could affect prices. In fact he reversed the relationship:

"The quantity of the medium of circulation is determined by the sum of the prices that have to be realized." (v. 1, p. 133-34)

In other words, prices determine the money supply, rather than the money supply determining prices - similar to the view of the old "Banking School" in the debates after the 1810 Bullion Report. There is an element of truth in it, in so far as those controlling money could govern their issuance of it by such a factor at times, especially where commercial banks are creating credit in reaction to business demands.

However, the causal effect of quantity had been fairly well understood, and Marx's footnotes show he was aware of those arguments. His reversal of quantity and price does fit better into his general view of the proletariat vs the industrialists. Their setting of prices rather than the banks creating money is easier to blame as the controlling factor.



*13d.* **Because Karl Marx's concept of money did not differ significantly from Adam Smith's faulty view, "Marxism" never really threatened the basis of capitalism's power - the control over society's monetary system.**

Both Marx and Smith were derelict in not identifying the *quantity* factor of the inflow of gold and silver from the plunder of the Americas. It was clear enough to Rice Vaughan in the 1630s: "This real increase (in prices) is grown principally and in a manner solely, out of the great *quantities* of gold and silver...come out of the West and East Indies...."[19]

## ON CENTRAL BANKING AND THE PUBLIC DEBT

Marx accurately described the Bank of England and the public debt:

"At their birth the great banks, decorated with national titles, were only associations of private speculators, who placed themselves by the side of governments, and thanks to the privileges they received, were in a position to advance money to the state...The Bank of England began with lending its money to the government at 8%; at the same time it was empowered by Parliament to coin money out of the same capital, by lending it again to the public in the form of bank notes....It was not long ere this credit money, made by the bank itself, became the coin in which the Bank of England made its loans to the state, and paid, on account of the state, the interest on the public debt. It was not enough that the bank gave with one hand and took back more with the other; it remained, even whilst receiving, the eternal creditor of the nation down to the last shilling advanced." (v. 1, p 828)

"The public debt becomes one of the most powerful levers of primitive accumulation. As with the stroke of an enchanter's wand, it endows barren money with the power of breeding and this turns it into capital, without the necessity of its exposing itself to the troubles and risks inseparable from its employment in industry or even in usury. The state-creditors actually give nothing away, for the sum lent is transformed into public bonds, easily negotiable, which go on functioning in their hands just as so much hard cash would. (v. 1, p 827)

These statements, at the end of volume 1, show a much greater understanding of money than we see in Marx's formal definition as gold and silver commodities, near the beginning of that volume. "Enchanters' wand" indicates an awareness of the power of legal tender status. "Barren money" indicates more than a passing familiarity with Aristotle's concepts of money. "Risks inseparable from its employment in industry" indicates a greater understanding than Marx displayed in his scenario of the exponential growth of industrial capital presented below.

## ON PRIVATE CONTROL OF MONEY CREATION

Marx showed progress over Smith: "Since the standard of money is on the one hand purely conventional and must on the other hand find general acceptance, it is in the end regulated by law," (v. 1, p 112) and,

"Coining, like the establishment of standard prices, is the business of the State...." (v. 1, p 140)

Earlier, in 1848, plank # 5 of the *Communist Manifesto* called for:

"Centralization of credit in the hands of the state by means of a national bank with state capital and an exclusive monopoly."

However, that view was not consistent with Marx's commodity view of money. Thus 19 years later, we find no call for this crucial reform in *Capital*, where Marx writes:

"The only difference between coin and bullion is one of shape, and gold can at any time pass from one form to the other." (v. 1, p 140)

But applying that view in practice relinquishes control over money to the "financiers" with the power to "pass" gold from bullion to coinage. This had been the purpose and effect of the English Free Coinage Act of 1666, discussed in Chapter 10.

The lack of reform proposals in *Capital* is noteworthy. De Brunhoff writes: "Marx is obviously no more a monetary reformer than he is a Saint-Simonian reformist." (p 120) **Marx doesn't require reform, for he is postulating an inevitable progression toward his desired outcomes.**

THE WAR BETWEEN INDUSTRY AND LABOR

Marx postulates a fundamental struggle between Capital and Labor, focusing on capital mainly as industrialists rather than as private central banking. Where Adam Smith approached political economy in sympathy with capital, Marx approached it as a champion of labor, and strongly criticized Smith: "Adam Smith forgets to mention labour power as one of the elements of productive capital." (v. 2, p 235)

This dichotomy grew to historic proportions, eventually promoting a destructive antagonism between business and labor in the western world to this day. But while their interests strongly differ, they also have much to gain from co-operation. Parasitic finance, though, offered neither of them anything, harming both labor and industry.

### Marx's Nightmare of Exponential Growth

Since Marx considered profits as having been expropriated from the workers, he devoted little attention to the visionary, planning, organizational, and risk taking skills of the entrepreneur and focused on an exponentially growing capital in the hands of the industrialists:

"The capital produces yearly a surplus value, of which one part is yearly added to the original capital; since this increment itself grows yearly along with the augmentation of the capital already functioning.. (v. 1, p 672)The original capital of £10,000 brings in a surplus value of £2,000, which is capitalized. The new capital of £2,000 brings in a surplus of £400 and this too is capitalized; which in turn produces a further surplus value of £80 And the ball rolls on." (v. 1, p 637)

But since the industrialists were operating within natural limits, producing real goods, they were not really in the position painted by Marx. They took risks - they could lose their assets, except in monopoly situations. Later in vol. 1, it is apparent that Marx realized this contradiction, and one has the impression that some "stock themes" were used, though his awareness had advanced beyond them.

The nightmare of unnatural exponential risk-free growth does exist in another area that Marx was well aware of - the interest on the national debt. He recognized the bank problem, but de-emphasized it:

"The great part that the public debt, and the fiscal system corresponding with it, has played in the capitalization of wealth and the expropriation of the masses, has led many writers like Cobbett, Doubleday, and others, to seek in this, incorrectly, the fundamental cause of the misery of the modern peoples." (v. 1, p 829)

Marx's focus fits his theme of the battle between industry and labor, but history has shown that the real struggle would be the people of the bank (what he refers to as a "bankocracy"), against both industry and labor. But explaining that to the "proletariat" would be hard.

To Marx, the unjust central bank and centralization of credit was an essential part of capitalism and therefore of the presumed historical progression to socialism. He considers the question "absurd...whether capitalist production...would be possible...with the circulation of metallic coin alone. Evidently this is not the case. It would have found the barriers of the limited production of precious metals in its way." (v. 2, p 399)

MARX'S HISTORICAL PROGRESSION TO SOCIALISM

This paramount theme is found in Marx's brutally honest description of the establishment of original capital in society:

"It is notorious that conquest, enslavement, robbery, murder, briefly force play the great part." (v. 1, p 785)

Before the capitalist system could start, the means of production owned by the people had to be taken from them. Citing several sources, Marx accurately described how the English peasants were ruthlessly dispossessed of their traditional land rights starting in the 16th century, and were pushed into the labor force where they could only survive by selling their labor to capitalists. The capitalists made a profit by taking the "surplus value" of their labor - roughly everything they produced that was not needed for their bare survival.

"These new freedmen became sellers of themselves only after they had been robbed of all their own means of production and of all the guarantees of existence afforded by the old feudal arrangements...The starting point...was the servitude of the labourer...the expropriation of the agricultural producer, of the peasant, from the soil is the basis of the whole process." (v. 1, p 786-87)

"The process was carried on by means of individual acts of violence against which legislation, for a hundred and fifty years fought in vain... by the 18th century...the law itself becomes now the instrument of the theft of the peoples land...." (v. 1, p 796)

Marx predicted that capital would concentrate in ever fewer hands, where capitalists, having already expropriated the peasant and proletariat, would then eat each other, until finally the few remaining magnates would themselves be expropriated:

"Along with the constantly diminishing number of magnates of capital who usurp and monopolize all advantages of this process,...grows the mass of misery, oppression, slavery, degradation, exploitation; but with this too grows the revolt of the working class,...always increasing in numbers and disciplined, united, organized by the very mechanism of the process of capitalist production itself...(and) the expropriators are expropriated...by the mass of the people." (v. 1, p 836-37)

This accounts for Marxism's later influence. The author thinks that many good people could see the injustice, even the viciousness of the prevailing economic system. Marxism offered political relevance and hope to them. Association with the revolutionary cause distinguished him from mere economic theorists. When Marxism became "Antithesis," he was lionized and followers would not be too theoretically demanding.

MARX'S USE OF MATHEMATICAL FORMULAE

Perhaps in a desire to be "scientific," Marx used mathematical forms to express economic equivalencies. For example that 20 yards of linen = one coat (v. 1, p. 57). But in this author view, such math as applied by Marx and others is questionable. The problem is the use of the "equal sign". In mathematics that sign carries great power. For whatever is done to one side of the equation can be done to the other side and the equation still holds true. Multiply or divide one side by a thousand and it equals the other side similarly multiplied or divided. The square root of one side equals the square root of the other side, etc.

However, this is not necessarily true for an expression of economic equivalence between different objects because economic value and mathematical value are two different things. For example although one overcoat may be equivalent at one moment to 10 yards of cloth, one tenth of an overcoat may not be as desirable as one yard of cloth. Someone may well be able to use 1 yard of cloth, while one tenth of an overcoat could be useless. And likewise one hundred yards of cloth may be more valuable than 10 overcoats, or vice versa, depending on the "economic" situation. Thus an economic equivalence is much more complex than a mathematical one, and is rarely adequately expressed in an equation. Extra variables exist, including time.

## THE SYNTHESIS OF SMITH AND MARX

The synthesis of Adam Smith and Karl Marx led to a world where labor and business are at each others throats, with a body politic polarized into "right wing" and "left wing." This is the kind of split that could be managed by the "financiers" operating behind the scenes. Rarely did either the right or the left, labor or industry, identify the "financiers" as their true problem.

The synthesis promoted the idea of commodity money, long known to be primitive. Concurrently it advanced a private central banking system creating abstract money (credit) for profit and power. Their theory would always be in conflict with the actual practice, rendering monetary concepts a morass of confusion to the present day.

*13e.* **Stanley Jevons advocated a monetary world view where one privately owned central bank holds the money power, and thus the nation in its hands.**

## STANLEY JEVONS' SYNTHESIS

The main elements of this synthesis can be seen in Stanley Jevons' (1835-82) work. Jevons no longer discussed whether privately owned banks should control money; it was assumed. He limited his discussion of this to the different ways that the banks should be allowed to do it. It was no longer possible to demand complete autonomy for the Bank; the restrictions put on it in 1844 made that clear.

Neither do we see a discussion in Jevons of the supposed opposition between business and labor. It is assumed.

Writing 100 years after Smith, Jevons dropped the argument that the value of labor determines the value of money, and gave a market definition of value: "Every act of exchange presents itself to us as a ratio between two numbers. Value is that ratio...."

Jevons guaranteed the continuing confusion of money as a commodity by improperly expanding money's functions to include acting as a longer term store of value. Money was the standard of value, medium of exchange and measure of value, *and he put forward as a question whether money should also be a store of value:*

"It is worthy of inquiry whether money does not also serve a fourth purpose - to embody value."[20]

Professor Laurence Laughlin later criticized Jevons for adding the store of value function to the purposes of money:

"This function seems to have been illogically added to the general concept of money, because the precious metals generally associated with the latest evolution of the money material are durable."[21]

Jevons pointed out that in recent English history gold had undergone substantial changes in value: (p 313-30)

| | | | |
|---|---|---|---|
| 1789 - 1809 | - | gold fell | 46% |
| 1809 - 1849 | - | gold rose | 145% |
| 1849 - 1875 | - | gold fell | 20% |

Searching for a better long term standard, Jevons proposed a standard of value based on an index of commodity prices. This is still being proposed in modified form.

## ONE PRIVATE BANK IN CONTROL OF MONEY

Jevons did not discuss whether the government or a private bank should control money. Ignoring the work of Ricardo, Berkeley, Raithby, Tooke, Thompson, Macleod and others, Jevons just assumed that money should be privately controlled and quickly went into a highly detailed description of the types of reserve systems appropriate to banking. On one point he was absolutely clear - he favored one controlling bank: "Nothing is less fitting to be left to competition than money."(p 64)

## RE-BURYING THE SCIENCE OF MONEY

Regarding the nature of money, Jevons took pains to obscure it:

"There was a tradition in Greece that Lycurgus obliged the Lacedaemonians to use iron money...However this may be it is certain that iron money could not be used in cash payments at the present day since a penny would weigh about a pound." (p 35)

He went out of his way to dismiss the Spartan numerary system of Lycurgus as merely an attempt to pay off old debts and interest by turning something cheap into legal tender! For 300 years? See our discussion of Lycurgus iron money in Chapter 1.

Jevons ignored the legal concept of money discussed in detail by Aristotle, Plato, Paulus, Locke, Berkeley, Franklin, Raithby and others. It's not an oversight - he's much too familiar with banking for that. Is he ever concerned for the commodity value of the scraps of paper used as banknotes the way he is concerned over the value of the scraps of iron? It is not a factor! The paper banknotes and the iron are working as nomisma, not commodities.

Just like Adam Smith, Jevons influenced his readers to think of money as a commodity, when he was aware that the private banks were issuing abstract money. This trick, used repeatedly, is how the nomisma concept of money has come to be erased from the collective memory of mankind - from the dominant written works on money.

**When finally the Science of Money had been privately reconstituted after being lost for many centuries, the bankers understood that they had to re-bury it in order to protect their parasitic activities against society.**

Regarding the legal concept of money, Jevons presented just enough of it as was helpful to banking but not enough to be dangerous to banking. He did not identify money as an institution of the law, but promoted the use of bank-controlled fiat money:

"There is plenty of evidence that an inconvertible paper money, if carefully limited in quantity, can retain its full value." (p 229)

## THE RIGHT QUANTITY OF MONEY

Regarding how much money was appropriate, Jevons thought that no one could tell how much was right, and that "statesmen" shouldn't attempt to regulate it directly. He asserted that the amount necessary was proportional to population, industrial activity, complexity of organization and, echoing Marx, the price of goods. Maintaining that few of these were accurately known, Jevons suggested:

"...leave it at perfect freedom to regulate itself. Money must find its own level - like water," he said echoing Smith's fallacious "channel of circulation" model.

He advocated that any attempts to control the money supply be restricted to regulating the issue of Bank notes, which to him meant determining what system of bank reserves to use. Very convenient for the money power.

Jevons thus promoted a monetary world view where, in each country, one private bank holds the money power and this privately owned central bank can reign supreme over governments and humanity.

HOW BANKERS INFLUENCE MONETARY THEORY

This work does not suggest that the financiers specifically hired and paid Adam Smith, Karl Marx, Stanley Jevons and others to formulate and publish works that would assist them. For example, though volume one of Marx's *Capital* was published in German in 1867, it was not until 1886 that it was even translated into English. Marx lived his last three decades in poverty in London's Soho slums.

No doubt, as J.E. Thorold Rogers concluded, such conspiracies did and still do exist, and researchers should not be afraid to use that term to identify them when there is enough evidence. But proving it is very hard, and we have more pressing work

It is also completely unnecessary to postulate such a direct conspiratorial connection. It's possible for the financiers to look over the current crop of professors and single out those with plausible theories beneficial to their activities. Elements of the financial establishment could see to it that those ideas were promoted and refutations of them were ignored, possibly without the professors even being certain why their works were well received.

An example of how easy it is for important works to be lost and destroyed by simply ignoring them is that when Sir James Fraser (author of *The Golden Bough*) edited a book of Bishop Berkeley's works he was unable to find a copy of the *Querest* to include, until at the last moment by chance he came across one. The first copy which this author read of Berkeley's *Querest* was about 250 years old. We have already discussed how a different form of censorship has operated, where the latest reprintings of *The Golden Bough* have left out all of Frasers' controversial additions and reverted to the initial edition!

Understand also that many of the economics chairs at universities are endowed by financial institutions - banks and related bodies. These groups have a direct influence over who does and doesn't get promoted to those chairs of influence and therefore over which monetary ideas the next generation of economists and teachers are indoctrinated with.

Because political economy was to such a large extent developed in England, one would expect that these predatory economic and monetary doctrines would especially dominate in the English speaking universities and countries.

In summary, neither Adam Smith's system of private money, nor Bentham's justifications of usury could stand a test of the facts, but relied mainly on theoretical argumentation. Examinations of history that challenged the political economist's theoretical systems, such as Rogers' work demonstrating the economic regression of the English workman, were difficult to carry out. Finally, in the mid 1800s, considerations of justice and religion combined in England to produce a degree of social and banking reform.

Marx's appearance as an opponent of Smith's "Thesis" of capitalism was not fundamental in monetary terms, because Marx and Smith's errors on the nature of money were virtually identical. Marxism would later raise the specter of chaos and atheism, when it became historically associated with revolution. The debate shifted away from usury and the injustice of private central banking, onto a struggle of worker against industrialist.

While the unforeseen development of nuclear weapons has made it touch and go at times, and threatens the future of mankind even more today, that is not a threat from Marxism, but from religious fundamentalism, something Marx had no patience with.

The political economists' effect has been to re-bury the science of money, smothering it in indecipherable jargon. That process continues to this day through the financial establishment's influence on the teaching and rewarding of economists. All this has indeed made economics a very dismal science. We'd like to see that change.

## *Notes to Chapter 13*

[1] William Cobbett, *The Political Register*, December 6, 1806, as quoted by Hollis, cited in 4 below, p. 46.

[2] Macauly, *Essay on Southey's Colloquies*, as quoted by Hollis in 4 below, p. 46.

[3] James Edwin Thorold Rogers, *Six Centuries of Work and Wages*, (London: Swan Sonnenschein, 1903), p.398.

[4] Christopher Hollis, *The Two Nations*, (repr. New York: Gordon Press), p. 46.

[5] Hollis, cited above, p. 47.

[6] Hollis, cited above, p. 139.

[7] John Wade, *Principles of Money*, (London: E. Wilson, 1842), p. viii.

[8] Sir Francis Bacon, Philosophical *Works,* Edit. J.R. Robertson, (Freeport: Books for Libraries, 1905).

[9] Sir Francis Bacon, *New Atlantis*, (Univer. of Chicago Press, Great Books Collection, Encyl. Britannica, 1952), vol. 31.

[10] Francis Bacon *Philosophical Works of Francis Bacon.* Edit. J.M. Robertson. Ellis & Spedding text. Freeport, NY: Books for Libraries, 1970.

[11] William Petty, *Quantulumcunque Concerning Money*, (London: Churchill, 1682)

[12] Adam Smith, *The Wealth of Nations*, 1776. Great Books Collection,cited in 9 above, vol. 39, p. 22.

[13] Jeremy Bentham, *Defence of Usury*, (London: Payne & Foss, 1818).

[14] John Whipple, *The Importance of Usury Laws - an Answer to Jeremy Bentham*, (1836, Boston: Wentworth, 1857), pp. vii, 15-16, 26.

[15] A.E. Feavearyear, *The Pound Sterling*, (Oxford Univ. Press, 1963), pp. 270-75.

[16] Andreas Andreades, *History of the Bank of England*, (London Univ., 1909), p. 391.

[17] Karl Marx, *History of Economic Theories from the physiocrats to Adam Smith*, edit. Karl Kautsky, trans. T. McCarthy, (New York: Langland, 1952) p. xi.

[18] Karl Marx, *Capital vol. 1*, (1867, New York: Modern Library, n.d., a reprinting of the 1912 C.H. Kerr edition (Chicago), based on Unterman's 4th German edit. p.106. Page numbers of the Modern Library edition as cited are identical to those in the more difficult to obtain Kerr edition of vol. 1. Many of the Kerr editions are in a state of deterioration. Our citations referring to volumes 2 & 3, are from the Kerr 1912 edition. Citation at the bottom of our page 349 to (v. 3, p. 592) is from the International edition, Moscow. (pub. details to follow). The Kerr volume 3 fell apart as we searched for this page.

[19] Rice Vaughan, *A Discourse of Coin and Coinage,* in J.R. McCulloch's *Rare and Valuable Tracts on Money,* (London: Pol. Econ. Club,1856; repr. New York: A.M. Kelley, 1966), Chapter 11, written 1630-35, pub. 1675.

[20] Stanley W. Jevons, *Money and the Mechanism of Exchange*, (1875, New York: Appleton, 1897).

[21] Laurence Laughlin, *Principles of Money*, (New York: Scribners, 1911), pp. 170-75.

# CHAPTER 14

# U.S. COLONIAL MONEYS

"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."
Benjamin Franklin

Our rich American monetary experience contains many of the best "case histories" for the study of money systems. The unsurpassed monetary "experiments" tried by our young nation can help instruct students, reformers and leaders everywhere. We therefore have a unique contribution to make to the world community in this field.[A] This is especially true because the original union of the colonies into the United States and the merging of 11 colonial currencies into one national currency is the closest historical parallel to what is now happening with the new Euro currency system.

Our history also helps us understand how monetary aggression has been used against a people and can show us, and the rest of mankind, how to block any such attempts in the future.

When entering this field remember that monetary history is a battleground where private interests, intent on protecting modern day privileges, seek to paint the historical canvas in a manner that works to solidify or justify their present political advantages, even to the point of obscuring or misinterpreting the actual history. Once the student is aware of this problem, two key features of American monetary history that set it apart from all other nations soon become evident:

First, from its beginnings the US has been a great monetary laboratory.

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[A] The author began presenting the themes of Chapters 14 to 17 to the public in January 1995, in newspaper and magazine articles and radio interviews.

Most of our history is marked by monetary crises, with relatively brief periods of monetary peace. Almost every conceivable monetary solution has been tried at some time here, and the results recorded.

Second, America has been a nation of fiat paper money. Our development was inseparable from paper money, right from colonial days. Without it there would not be a United States. The colonies relied on colonial paper money for their development. We then gained our independence and later maintained the union with government issued paper money.

Unfortunately, our past doesn't give us a complete "good old days" system to return to - we still have to create that. Our history can be viewed as a struggle against those forces intent on controlling the nation through privately issued money. Most of the time, from one generation to another, private money has dominated us, siphoning wealth and power from the general population to the people of the banks.

## ABORIGINAL MONEYS OF THE MOUND CULTURES

The "Mound builder" cultures in North America died out before the Europeans arrived, so little is known of them. Their largest structure was a canal 100 feet wide and 150 miles long near Osceola, Arkansas. A calendar stone, found in the mound at the intersection of 5th and Mound Street in Cincinnati, divided the year into eight seasons of 45 days. This led Del Mar to speculate that they had emigrated from Asia, possibly India. Since they had no iron, he concluded they immigrated before the 13th century BC. These were extraordinary conclusions for the time. Today we know that their migration was indeed from Asia more than 10,000 years ago.[1]

In the mid-1800s M.W. Dickeson examined 1033 ancient mounds in the Mississippi Valley, finding several artifacts that were probably used as money. Del Mar classified them:

* Lignite and coal money, decorated with parallel lines and dots; others with figures of men and animals. 7/8 to 1.25 inches round and 1/4 inch thick.
* Ivory and bone money. 1/4 inch thick, 3/8 to 5/8 round.
* Terra cotta money, stamped on one side with dots, parallel lines, a triangle, or letters. 1.12 to 1.75 inches round, 1/8 to 1/4 inch thick.
* Stone money, sandstone and slate. 1/2 to 8 inches round; one found in the hand of a skeleton.
* Gold coins, 3/4 inches diameter, rough edged; about 48 grains. One with four waving parallel lines found in the hand of a skeleton in Ross County, Ohio. A similar one found in a mound at old Fort Rosalie, near

Natchez, Mississippi. A third one with a man on one side and a bird on the other found in Perry County, Ohio.

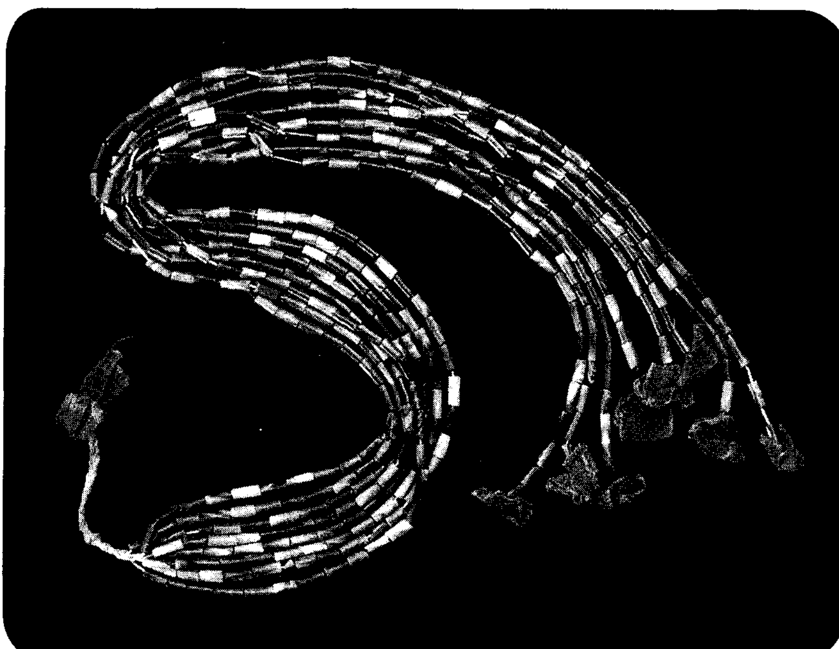
* Similar coins of silver and copper.
* Galena lumps of irregular roundish shapes covered with hieroglyphics.
* Concave-convex copper discs.
* Beaver and Marten skins.
* Small lumps or balls of gold, slightly flattened, with irregular edges, were found especially in the Ohio mounds.[2]

Such pieces could be collected into a major museum presentation.

INDIAN WAMPUM

Del Mar maintains that the North American Indian nations didn't use money until Europeans arrived, but had a tradition of exchanging wampum. These were strings of colored beads and were not so much used as money as they were beautiful objects used as tokens of goodwill, or to commemorate important events and solemn occasions such as making a promise or treaty. Del Mar relates that:

"At the Cincinnati meeting of the American Association For The



*14a.* **Indian wampum did not take on a monetary character until the colonists used it in that way. Wampum had a more ceremonial usage in commemorating treaties or other agreements and responsibilities.**

Advancement Of Science in August 1881, Mr. Horatio Hale of …Canada, read a paper on Hiawatha and the Iroquois Confederation, in which he traced the real history of this 'law giver of the stone age' entirely from the wampum belt which he handled, than which there could scarcely be a stronger proof that among the Indians wampum were used for commemorative purposes and not as money, until the whites gave them this character."[3]

After contact with Europeans, the Indians started using money forms.[B] In 1763, Pontiac, chief of the Algonquins, while besieging the English in Detroit, issued notes on birch bark to obtain supplies for his forces. One side had the figure of the thing to be purchased; the other side had an otter, Pontiac's totem. After the siege he paid off the notes and withdrew them.[4]

## COLONIAL MONETARY HARDSHIPS

From the beginning the North American colonists were at odds with the home country over money. The Dutch had kept coinage out of New Amsterdam, and English laws forbade sending coinage to America.[5] She didn't want the colonists to trade with each other, but to send raw materials back home to England. The scant coinage in the colonies came mainly from pirates or trade with the Spanish West Indies. The colonists were not backward people, but were forced to use primitive barter.

They were in dire need of a money system but England refused to provide it, continually placing them in distress. For 10 to 20 years after 1640, more people were going back to England than were coming here. Out of necessity, the colonies became a kind of monetary laboratory, devising various monetary solutions. In 1650, Massachusetts even made Indian wampum a legal tender up to a small amount in an effort to create a circulating medium.

## THE "COUNTRY PAY" PERIOD (1632-1692)

In the Country Pay period many agricultural products were legally declared to be money. It was not quite barter, because the money values of the produce were fixed by law from time to time, much as had been done in the ancient oriental cultures of Mesopotamia. At one point in North Carolina 17 different commodities were legal tender. But this wasn't much more efficient than barter. Though "country pay" was sanctioned by the English Crown, and administered by the Colonial Governments,

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[B] Donald Taxay presents a somewhat different view that is worth reading in *Money of the American Indians*, referenced in endnote 3.

the results were very poor. Everyone wanted to pay with the least desirable commodities, in the worst condition.

Another problem using commodities as money was seen when Virginia and Maryland made tobacco a legal tender in 1633. But in 1639 there was a bumper crop and the colonial assemblies ordered one half the crop to be burned. This is a good example of how a money's commodity basis can interfere with its function as money. At the same time, to protect debtors, depending on the crop to pay off their debts, they ordered creditors to accept £40 as full payment for every £100 of debt, again echoing the ancient oriental price setting practice (see Ch. 1). Virginia re-monetized tobacco in 1730, when her legislature authorized tobacco warehouses to issue transferable tobacco notes.


*14b.* **Hull's mint began stamping gold and silver "tree coinages" in Massachusetts in 1652. They weren't much help to the colony, being quickly paid to merchants in England, where they were melted down.**

## HULL'S MINT IN MASSACHUSETTS

In 1652 Massachusetts defied the English Crown and allowed John Hull to open a mint that produced the "tree" coinage. Willow, oak and especially pine trees were featured on the coinage, which was 67 grains of gold - the exact weight of the ancient Bezant. All the coins were dated 1652, but the mint operated until 1685, ready to coin all gold and silver presented, for a 5% fee. Most of the metal came from buccaneers operating against Spanish shipping in the West Indies.

Though the mint was considered treason in England, the Massachusetts Assembly made the coinage legal tender in the colony. This may have been the last straw in the Crown's running dispute with the Massachusetts Puritans' bloody persecutions of those outside their church.

In 1684, the Crown temporarily revoked Massachusetts' colonial charter and later closed the mint. The power of the Puritan churches over politics was dramatically reduced, but from this point those same "religious" leaders continued their reign of terror over the people, with the infamous Massachusetts witch hunts and burnings.[6] The Puritans came to America not to establish religious freedom but to exercise religious tyranny.

Although Hull's mint had coined about one million pounds sterling worth of coins, it didn't relieve the colonists' monetary distress. The coins quickly flowed out of the country and were re-minted as English coinage.

## THE COLONIAL LAND BANKS

The next experiment took the form of private land banks. One was established in South Carolina in 1675. It issued paper bank notes that were theoretically convertible into land of secured estates. When the Hull mint was closed, John Blackwell set up a private land bank in Boston in 1686, but its notes failed to gain acceptance.

Private land banks were attempted as late as 1732 in Connecticut when the New London Society for Trade and Commerce issued notes on land, but it was closed down in 1733. In 1739 another land bank was formed in Massachusetts when "a number of land owners formed a company and mortgaged their estates to it for its notes, giving 3% per annum interest in merchandise and 5% per annum on the principal in [the bank's notes which] were payable after 20 years in manufactures of the province," wrote William Graham Sumner. The bank's charter explicitly stated it was trying to reduce the hardships caused by a lack of circulating medium. But the bank was closed down in 1740.[7]

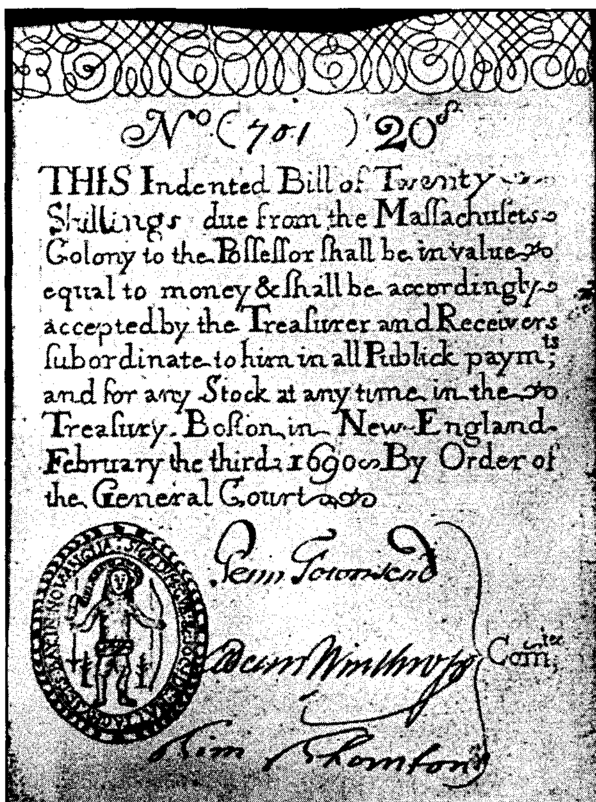
The colonists shunned this privately issued money, and viewed currency as a function of government, as it was in England until 1694.

## MASSACHUSETTS BILLS OF CREDIT - THE WEST'S FIRST PAPER MONEY

In the late 1600s the population of the colonies approached one million, making barter extremely impractical. Then in 1690 Massachusetts embarked on a radical experiment, and began to issue "Bills of Credit," a form of paper money not backed by any physical thing. **Rather than a promise to pay, it was a promise to receive - to accept the paper bills for all moneys due to Massachusetts,** valued at 5% above the note's face amount.

At first, this paper was not made a legal tender but everyone accepted it, and though Massachusetts originally did not intend the bills as money, they immediately began circulating as money, ending the colony's distress. This money didn't flow back to England like the coinage.

The closest precedent for Massachusetts's money were the paper


No (701) 20s

THIS Indented Bill of Twenty Shillings due from the Massachusets Colony to the Possessor shall be in value equal to money & shall be accordingly accepted by the Treasurer and Receivers subordinate to him in all Publick paym^ts and for any Stock at any time in the Treasury. Boston in New-England February the third 1690. By Order of the General Court

Penn Townsend

Adam Winthrop Com^tee

Tim Thornton

*14c.*
**Massachusetts issued "bills of credit" in 1690. Rather than being a debt instrument - a promise to pay - they were in fact *a promise to receive*, and were thus an advanced money form. The bill reads: "This indented bill of 20 shillings…shall be in value equal to money and shall accordingly be accepted by the treasurer in all public payments... ."**


*14d.* **Other colonies followed Massachusetts example. New Jersey issued similar bills with a value stated in terms of silver, but did not promise to pay silver, for the bill itself was the money! Thus it is crucial to recognize the differences between money and wealth and credit.**

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bills issued by King Charles II in 1667 described in Chapter 10. Del Mar reports a Canadian precedent in 1685 when French officials cut playing cards in fourths, and endorsed amounts on them totaling two million Livres, circulating them until they were paid in 1714, in coins or other money.[8]

***But the Massachusetts bills were a higher form. It is crucial to understand that they were money in themselves, not convertible or payable into some other "money."***

Originally £7,000 worth of bills were issued. In 1691 there was an additional issue, and in 1692 the Massachusetts Assembly declared them legal tender for all payments. The notes were well administered, not over-issued and circulated at their full face value (at "par") with silver coinage for 20 years, but around 1712 there were large increases in the volume of notes as well as coinage, and the notes lost about 12% of their value against coinage. In 1714 Massachusetts issued an additional £125,000 of notes. Eventually a total of £420,000 of Massachusetts notes would be issued, and their value declined very substantially, but the infrastructure that they had helped to build remained.

Other colonies copied Massachusetts, emitting similar bills of credit. It was not unusual for the bills of one colony to circulate in nearby colonies. **Invariably they transformed life in the colonies, improving**

**industry and commerce, helping to build real infrastructure. The colonists accepted, welcomed, and even demanded them for use as money.** They had finally found a solution to the monetary drought.

When the colonies authorized the issuance of too many bills - and this sometimes occurred - their value dropped. But when the paper issues were moderate - and there was no exact science to this - they kept their value well. The colonists were learning one of the basic laws governing money, that if too much is circulating in relation to the work it has to do, its value will start to decline (whatever it is made of).

*Of great importance is that the colonies did not issue more bills than their legislatures authorized.*[C]

THE REIGNING ERROR ON COLONIAL MONEY

Leslie Brock advanced the modern study of colonial money by realizing the entire field was cast in a misleading light by the dominance of writers such as Horace White, Charles J. Bullock, and Andrew MacFarlane Davis, who regarded inconvertible paper money as evil. They were largely influenced by Dr. William Douglas of Boston, and concentrated on the worst years of the period from which to draw their conclusions.

The *Dictionary of American Biography* tells us that Dr. Douglas' monetary *Discourse*:

"...was written at odd times, stolen from his professional work (as a medical doctor), was often based on hearsay and tradition since but few documented sources were available to him, and it is therefore marred by many inaccuracies, but...in his *Discourse* Douglas showed a sound grasp of the principles of exchange, a clear understanding of Gresham's law, and he stated in no uncertain terms that the Colony must adhere to the universal commercial medium (gold and silver)."[9]

In other words, that Douglas' facts were wrong didn't matter so long as he mouthed the Adam Smith theoretical viewpoint. But if over and again the facts are wrong, then just what is the theory based on? This conformity with prevailing error was enough reason for his *Discourse* to be reprinted in 1897 by the American Economic Association, while they ignored the superior work of Alexander Del Mar on the subject. This is another example of the mis-shaping of monetary history and theory.

In the 1960s Brock's doctoral thesis, *The Currency of the American*

C. There was one case of fraud, out of hundreds of colonial issues, by a Virginia official, John Robinson, who lent his friends $100,000 of notes he was supposed to have been destroying over a ten-year period. He was caught in the 1750s.

*Colonies, 1700-1764*,[10] corrected this misconception, but the Libertarian-oriented economists seem to be having trouble catching up with his work. His thesis at first didn't receive the attention from publishers it deserved, being finally printed in 1975 in typewritten, not typeset, form.

Joseph Albert Ernst's *Money and Politics in America 1755-1775* also presents an intelligent evaluation of the period instead of the misleading anti-paper moralizing. Ernst also pointed out the problem of merely examining note issues, when much of the money of the period was in the form of book credits between merchants.[11] But Ernst thus confused money with credit. These works, and Del Mar, can be consulted for detailed descriptions and additional sources on colonial money issues.

## PENNSYLVANIA'S SUPERIOR MONEY SYSTEM

The Massachusetts bills of credit provided one model for colonial money. The other model was the Pennsylvania system, where the colony loaned the money into circulation, instead of spending it into circulation.

By 1722 the Pennsylvania colony was being reduced to a form of monetary slavery by usury:

"The shopkeepers had no money to go to market, and the farmer's or planter's crop was then reduced to the lowest value; so that all the European goods imported, as well as the bread and flour or country produce, were bought up and engrossed at a low price, by a cabal of only four or five rich men, who retailed them again on credit at what rate they pleased, taking advantage of the people's necessities and circumstances; by which means they soon got the whole country into their debt, exacting bonds of everybody at 8%," wrote Keith.[12]

In 1723, a group of merchants petitioned Pennsylvania to alleviate "the great loss and growing ruin of themselves, and the evident decay of the province...for want of a medium to buy and sell with, and praying that a paper currency be established." A state loan office was created, and "Four men (were) appointed trustees at £50 per year salary" and authorized to loan £15,000 of paper money at 5% interest for 8 years. £250 was the maximum loan and the borrower had to pledge triple collateral - mostly land - and annually pay the interest and 1/8 of the principal.

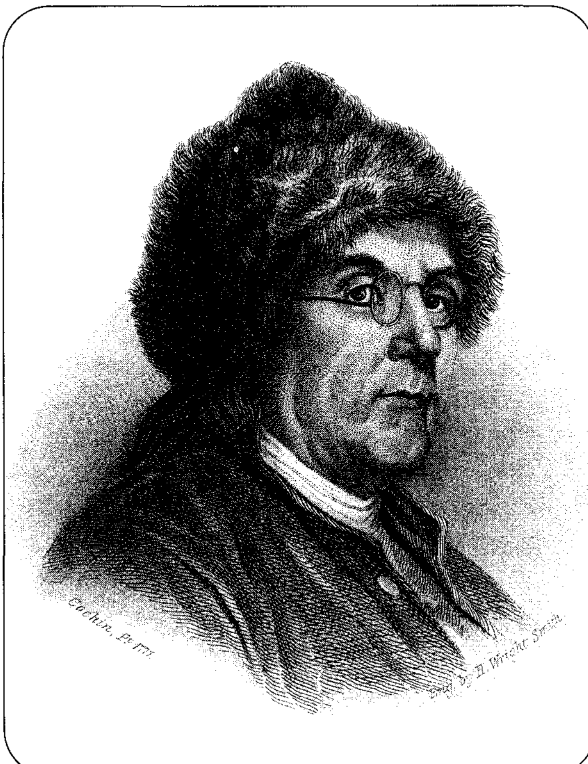
"So great were the benefits that accrued to the province by this addition and so immediately were they felt that in December a further issue of £30,000 was ordered on the same terms," wrote a member of the Numismatic Society of Philadelphia.[13]

Keith wrote: "It is inconceivable to think what a prodigious good effect immediately ensued on all the affairs of that province; [shippers received payment in 6 weeks instead of 9 months]. The poor middling people who had any lands or houses to pledge, borrowed from the loan office, and paid off their usurious creditors. The few rich men who had before this [quit] all trade - except that of usury - were obliged to build ships, and launch out again into trade."[14]

Rather than extinguishing the money that was being paid back yearly, in 1726 Pennsylvania enacted provisions to re-loan the bills that had been paid in, assuring a continually circulating medium of exchange, and declared the money a legal tender. **She earned £2,500 yearly interest on this paper money created out of thin air, which paid half of colonial expenses during some periods.** While the collateral the money was loaned on was mainly land, it was never convertible into land, and was not a "land bank" in that sense.

BENJAMIN FRANKLIN'S SUPPORT OF PAPER MONEY

Ben Franklin, a scientist, inventor, printer, and soon to be statesman, had high powers of observation and reasoning. Writing in *Busybody #8*



*14e.* **Ben Franklin helped rescue Pennsylvania from a prolonged usury crisis by issuing colonial paper currency. His 1729 essay explained why. Two hundred years later, Austrian economist Ludwig Von Mises impudently charged his motive as a printer was to profit from printing the money. But the "Austrians" are for the most part monetarily illiterate. Franklin understood the difference between money and wealth.**

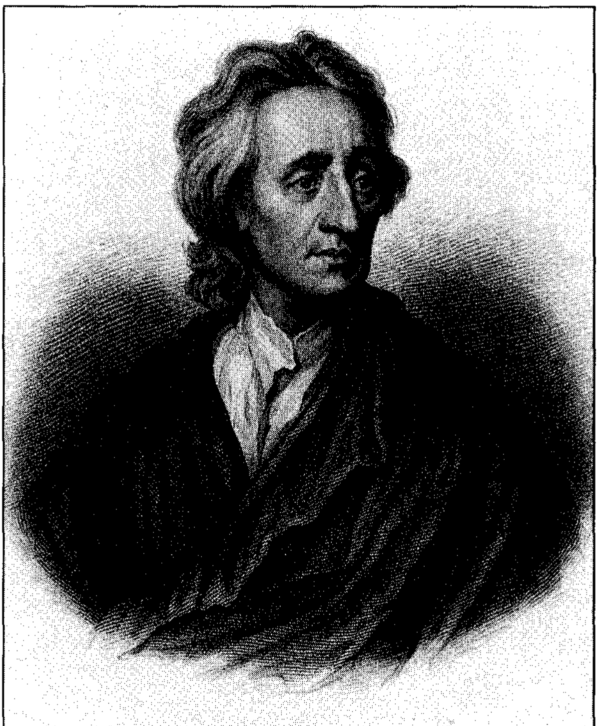
James 2nd (1633-1701) of England. William was invited by elements in England to mount a campaign to temporarily take the Monarchy. After years of planning, the assault, misnamed the "Glorious Revolution," landed in November 1688.

William's attack had heavy Jewish financing. Isaac Lopez Suasso of the Hague advanced him two million gold crowns, interest free; Suasso was later made the Baron d'Avernas le Gras.[47]

From the reign of William 3rd of Orange we see the precise origins of the primary destructive mechanisms operating upon society at the present time.

Sir Archibald Alison's *History of Europe* noted:

"The Prince of Orange brought from the Republic of Holland where it had been already practiced and thoroughly understood the secret of



*10e.* **Philosopher John Locke became part of William 3rd of Orange's revolution, returning to London with William's wife. He wrote a book promoting toleration, with some exceptions, including that it was all right for the Jews to remain religiously intolerant. This double standard reduced the seriousness of Locke's philosophic system.**

## COUNTERFEITING OF COLONIAL BILLS

An alarming amount of counterfeiting of colonial bills occurred. According to Nussbaum:

"A careful monograph...refers to a report of 1768 according to which a clan of 500 counterfeiters was working from New Hampshire to North Carolina...North Carolina authorized persons confronting a counterfeiter to kill him if he would not surrender within a certain time...only a half a dozen executions of counterfeiters in addition to some suicides are known for the entire colonial period."[16]

Pennsylvania punished counterfeiting by cutting off both ears on the first offense, and other limbs on continuing offenses, but large quantities of forgeries kept coming in.

## THE LORDS OF TRADE AND PLANTATIONS ATTACK COLONIAL MONEY

The London group the "Lords of Trade and Plantations," charged with overseeing the colonies, harassed the colonists' paper money systems on a case by case basis. From 1720, most new colonial money issues were considered suspended until specifically approved by the Crown, but enforcement was difficult outside of New England. Two of the defenses the colonies had were distance and the time lapse for communications.

After the "Lords of Trade" learned of Pennsylvania's money, a letter condemning it arrived in October 1726, setting forth the "evil consequences" of paper money. They refrained from nullifying them, they wrote, only out of consideration for the "innocent persons in whose hands they might be." But they threatened to void them all if more notes were issued and ordered the existing notes retired on schedule.

As the expiration approached, Pennsylvanians feared another economic collapse, as there was not much other money in the jurisdiction. Then, in May 1729, Governor Patrick Gordon defied the Lords Of Trade, and authorized £30,000 in Bills of Credit to be loaned on the same terms as the former emissions, but to be paid back over 16 years instead of 8. He also re-issued £40,000 of the previously issued £45,000. The good of the colony was sufficient justification for his act, he said.

The Lords of Trade continued to hound Pennsylvania even though its money system was held in high regard in England:

"Some of our plantations have severely felt the ill effects...of increasing the quantities of bills; whilst the Philadelphians by keeping sacredly to a certain number or sum total of bills have not only preserved their credit amongst themselves, but even extended it to some of the neighboring provinces," wrote Englishman Joseph Harris.[17]

Even the arch-enemy of government paper money, Adam Smith, had to acknowledge the quality of Pennsylvania's money:

"The early notes of the colony seem to have kept their credit..."[18]

## MASSACHUSETTS DEFLATED

It was a different story in Massachusetts. In 1727 the Lords of Trade began a series of monetary repressions. They ordered the existing bills of credit be withdrawn, and no new ones be issued; all local taxation was to be paid in coinage. This action started 2 1/2 decades of deflation, economic hardship and depression in Massachusetts.

In 1730, Governor Belcher was ordered to continue the contraction of the notes, down from £140,000 to about £30,000. The notes were to be paid off in coinage at ten and then seven paper per one coin, raised by taxes. By 1735, coinage was so scarce the colonists couldn't pay taxes except in commodities. The contraction resulted in a continuous economic crisis. Prices kept falling; debtors who had contracted debts in less valuable money were ruined. Property had to be sold for one-tenth of its fair value just to pay taxes. Trade was stagnant and cries of distress arose on all sides.

According to Charles Bullock, trade and industry were restored "when specie was re-instated."[19] This primitive commodity view of money ignored that it was the re-instatement program that had destroyed the trade and industry in the first place. It also ignored the real cause of the recovery:

Del Mar relates that in 1751 Massachusetts was so desperate that revolution was a real possibility. The Assembly issued more interest bearing notes to pay the colony's expenses, and the Governor acquiesced. To his surprise the certificates immediately began to circulate as money. The Colony, which had been in economic ruin, immediately revived and began to prosper when a circulating medium was provided. This is not to imply that Bullock lied, just that he read about a return to coinage, which his theories approved of and therefore assumed the recovery was due to that.

London heard about the new certificates in June 1751, condemned them and tried to push an interest bearing loan of coinage onto Massachusetts. They declined. The treasury certificates continued to circulate as money, with at least £157,000 still outstanding in 1766 and beyond. Even in 1774, Governor Hutchinson said:

"There has never been a time since the first settlement of the country when the treasury has been in so good a state as it is now."[20]

## THE 1764 CURRENCY ACT

The Lords of Trade sporadically attacked the colonists' paper money systems, but governor after governor did not enforce the Crown's desires. English creditors pushed for harsher sanctions, which passed in a 1751 act, but proved hard to enforce outside New England. In 1764 the England Grenville Ministry passed a similar law and enforced it.

The Act didn't ban paper money for government expenses, but banned it as legal tender in private transactions and made the ban retroactive for ten years, applying it to any money issued since 1754! It thus sharply contracted the circulation, harming trade. Within a year New York, Virginia, and Pennsylvania petitioned London for relief. The repeal movement was even supported by many London merchants who had originally promoted the Act for theoretical economic reasons, but then found that it damaged their trade in practice.

Franklin went to London to lobby for the repeal and appeared before Parliament in February 1766. In June 1767 he thought it would pass:

"(The) Ministry had agreed to the repeal, and the notion that had possessed them that they might make a revenue from paper money, in appropriating the interest by Parliament, was pretty well removed by my assuring them that no colony would make money on those terms, and that the benefits arising to the commerce of this country in America, from a plentiful currency, would therefore be lost, and the repeal answer no end, if the assemblies were not allowed to appropriate the interest themselves...we began to think that all would go smoothly...but in the house Grenville stood up and undervalued them all as trifles; and said he:

'I'll tell the honorable gentlemen of a revenue that will produce something valuable in America: Make paper money for the colonies, issue it upon loan there, take the interest, and apply it as you think proper,'" recounted Franklin,[21] who, sensing the strong feeling in the house against the colonies, considered requesting the monetary privilege for Pennsylvania alone.

It was from this point that Franklin began losing confidence in the future of British-American relations.

## NO "PARTIAL SCHEMES OF PRIVATE MEN"

The single good monetary law from the Lords of Trade came in 1741 when they forbade all private money issues in the colonies. The private money gang's headquarters were in London, and they suppressed colonial imitators. The colonists were in full agreement with this law.

There were also private money predators in the midst of the colonists. In the aftermath of the disastrous 1764 legislation, some of them felt the time was right to strike. At the end of 1766, eight Philadelphia mercantile houses, seven of them members of the "Presbyterian Party" and the eighth the Jewish firm of Willing and Morris, issued £30,000 in short term (9 month) interest bearing notes. Immediately two hundred other merchants advertised in the December 11th Pennsylvania Gazette that they would not accept these notes under any conditions.

A complaint sent to the Pennsylvania General Assembly "argued that the right to strike money of any kind belonged to the legislature alone and that the 'partial schemes of private men' would only undermine the general welfare."[22] That group of eight deserves careful study of their origins and ties to future events. Some activities of Willing and Morris are traced below.

## NORTH CAROLINA'S NOMISMA PROPOSAL REJECTED

The southern colonists were known to have brought the works of both Aristotle and Cicero to the new world. At a time when North Carolina's population was greater than New York's, a proposal had been made by Governor Arthur Dobbs:

"In 1753 (he) proposed to the mother country to mint copper money (1/2, 1 and 3 penny pieces) for the colony, 1/3 more valuable than English silver pennies. The quantity to be determined by the Governor and Council, but not to exceed 50 tons," wrote Dickeson in 1865.[23]

The Lords of Trade forbade it, but Dickeson noted that the refusal helped create a revolutionary climate:

"It was undoubtedly fortunate that this and similar schemes for apparently facilitating the internal industry and commerce of the country failed to be realized...as it had the effect to throw them more particularly upon their own resources, which gradually induced a spirit of self dependence; subsequently brought to a separation from the parent government, and finally confirmed them as an independent Nation and People."

## THE MONETARY CAUSE OF THE REVOLUTION

More than anything else it was The Lords of Trade's monetary suppressions that led to the Revolution:

"There can be little doubt that the acts of 1751 and 1764, which suppressed further issues of bills of credit, contributed not a little to the final breach with the Mother country,' admitted Bullock, "...In 1776 when he was examined before the House of Commons, Franklin gave it as his deliberate opinion that one reason for the impatience and disrespect which the colonies were manifesting toward Parliamentary authority was 'the prohibition of making paper money.' Too little attention has been given to this fact by most American historians," Bullock recognized, and noted that:

"In colony after colony, party lines came to be drawn upon this sole issue."[24]

"There can be no doubt that the bitterness engendered by this conflict was one great cause of the Revolution," wrote Sumner, another commodity money advocate.[25]

Del Mar was more to the point: "But the narrow minded and selfish London merchants and bankers, who influenced the government at this period, would not permit the colonies to have their own monetary system...accordingly orders were sent to America to put down the colonial money and enforce the falsely named "national," but really private [English] money...it was the enforcement of this policy that brought on the Revolution...," wrote Del Mar, and led to establishing an order of society that had been "forgotten for 18 centuries"- a republic.[26]

By 1773 London reconsidered, and allowed colonial legislatures more leeway in issuing various forms of paper money. But it was too little, too late; the colonists "rejected any parliamentary interference with their control over money," wrote Ernst.[27]

## CONTINENTAL CURRENCY - LIFEBLOOD OF THE REVOLUTION

On May 10, 1775 the first Continental Congress assembled at Philadelphia. Skirmishes with the British had occurred in Massachusetts. One of Congress's first concrete acts (June 22) was to issue \$2 million in bills of credit - Continental Currency. At first the colonies pledged to redeem them in coinage, proportionately to their populations. The bills were not interest bearing.

The Continental Currency has been vilified and ridiculed by those who mis-read history, and support private money. In fact, however, the

Continental Currency and the Revolution were inseparable.

An area for further research is the reason the coinage phrase was put on some of the higher denomination bills, though left off the smaller ones. Were there debates on this? Which faction was responsible for such terminology, etc.

Congress eventually authorized a total of $200 million, and never exceeded that amount.

Tradition has placed the start of the revolt at the battles of Lexington and Concord. Del Mar disagreed:

"Lexington and Concord were trivial acts of resistance which chiefly concerned those who took part in them and which might have been forgiven; but the creation and circulation of bills of credit by revolutionary assemblies in Massachusetts and Philadelphia, were the acts of a whole people and coming as they did upon the heels of the strenuous efforts made by the Crown to suppress paper money in America they constituted the acts of defiance so contemptuous and insulting to the Crown that forgiveness was thereafter impossible...there was but one course for the Crown to pursue and that was to suppress and punish these acts of rebellion..**Thus the Bills of Credit of this era, which ignorance and prejudice have attempted to belittle into the mere instruments of a reckless financial policy were really the standards of the Revolution. They were more than this: they were the Revolution itself!"**[28]

LIMITATIONS OF THE CONTINENTAL CURRENCY

The Continentals were not intended as a permanent system, and their power was limited by several important factors:

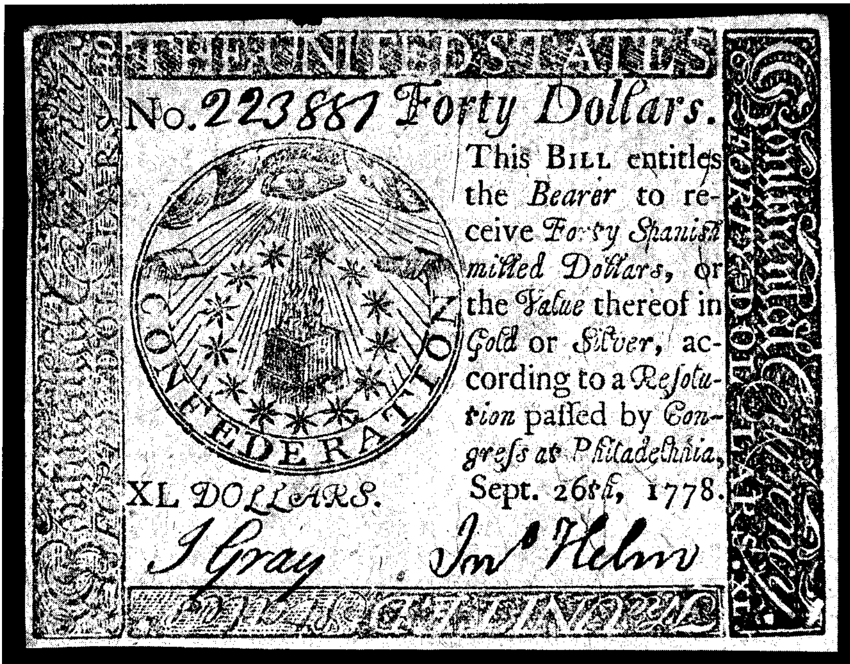
First, they didn't isolate the financial power of England from the colonies - her gold and silver coinage was still usable here as money.

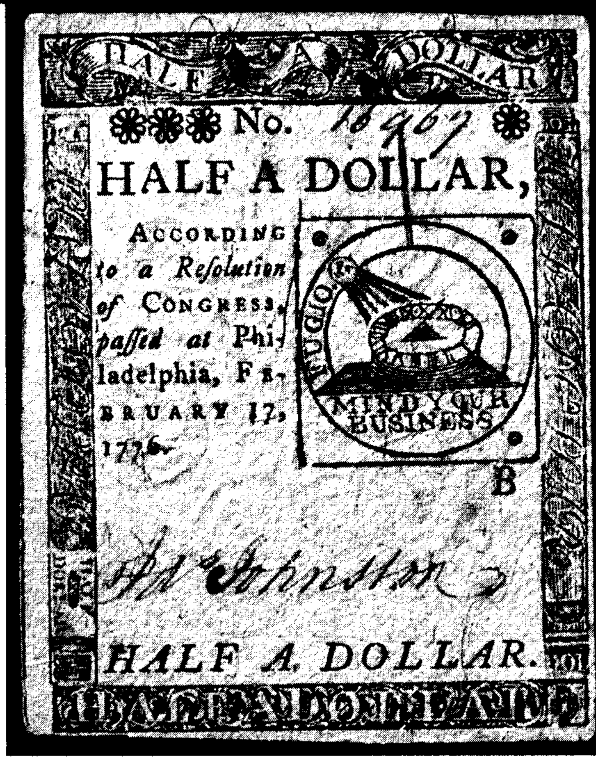
Second, the Congress had no statutory power to create legal tender money. It had no courts or police. It had no statutory power to levy taxes.

Third, the individual states retained their legal tender powers, and only gradually, one by one accorded legal tender status to the Continental Currency. As late as 1777 Congress was still appealing to some states to make the currency a full legal tender.

Fourth, the Currency had no higher rank or standing than the eleven paper currencies still being issued by the 11 individual colonies/states.

The currency was issued in denominations from $0.33 to $80. At first they were hand numbered and individually signed by 28 citizens of Philadelphia appointed to sign and number the bills, getting paid $1.30 per 1,000 bills signed. The military importance of the bills was recognized




*14f & 14g.*

**On June 22, 1775 the Continental Congress assumed the mantle of sovereignty and created the Continental Currency, though at first they had no authority to do so and no powers of taxation. The currency made the revolution possible, and was finally brought down largely by British counterfeiting. Some of the later higher denominations inappropriately promised to pay metal, a subject for further research.**

and the printers were exempt from military duty.

At the close of 1775 there was about $6 million in Continental Currency outstanding, along with $3.8 million in individual colonial issues and $9.2 million of coinage.[29] The bills had been mostly distributed to the colonies for revolutionary war expenses.

In July 1776 the Continental Congress issued the **Declaration of Independence**, the greatest written document of the nation. They also issued a proclamation that anyone refusing to accept the Continental Currency was a public enemy - General George Washington was authorized to imprison such persons and to seize their supplies. At first the Currency functioned well; in late 1776 the notes were only at a 5% discount against coinage.

MASSIVE BRITISH COUNTERFEITING OF THE CONTINENTALS

Counterfeiting was standard British procedure and used as a military weapon. When they earlier fought the Dutch over possession of New Amsterdam (New York) the British had even flooded the colony with Indian wampum, which the Dutch were using for money.

"The English Government which seems to have a mania for counterfeiting the paper money of its enemies entered into competition with private criminals...," wrote Schuckers.[30]

"In January 1776 or earlier a printing press on board HMS Phoenix, a ship of 44 guns lying in New York harbor was turning out counterfeits of the $30 bill...," wrote Scott.[31]

When General Howe took New York in 1776 it became the center for counterfeiting. "Immense quantities" were openly printed there. On April 14, 1777, a New York newspaper, the *H. Gaines Gazette*, carried the following advertisement:

"Persons going into other colonies may be supplied with any number of counterfeit Congress notes for the price of the paper per ream. They are so neatly and exactly executed that there is no risque in getting them off it being almost impossible to discover, that they are not genuine. This has been proved by bills to a very large amount, which have already been successfully circulated. Enquire for Q.E.D. at the Coffee House, from 11 P.M. to 4 A.M during the present month."[32]

Benjamin Franklin, who had been one of the best printers in America, noted:

"The artists they employed performed so well that immense quantities of these counterfeits which issued from the British Government in

New York, were circulated among the inhabitants of all the states, before the fraud was detected. This operated significantly in depreciating the whole mass."[33]

The Convention of July 30, 1777 reported that on July 3rd a large amount of Continental Currency had been fabricated in England and brought to America in British Men Of War operating in the Delaware River.

A British "wagon train of clothing and supplies for British prisoners in Lancaster…sent out from Philadelphia by General Howe under a flag of truce in January 1778" was discovered to contain Continental Currency," relates Scott.[34] In general those colonists supporting England passed the bills.

"The evil became so great that it was found necessary at a later period to officially withdraw from circulation (in January 1779) two of the Continental emissions amounting to $10 million," wrote Schuckers.[35]

"In April 1780, two British ships - the Blacksnake and the Morning Star - were captured off Sandy Hook with a large amount of counterfeit on board," wrote Scott.

Schuckers recounts that:

**"In a confidential letter to Lord George Germaine about 1781 [perhaps a bit earlier], General Clinton observed 'That 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.'"**

In March 1778, after three years of war, it was at $2.01 Continental for $1 of coinage. At the end of 1778 the Continentals retained from 1/5 to 1/7 of their value against coinage. At the end of 1779, they retained only 1/25 of their value against coinage (4%).[36]

By May 1780, the currency stood at 1/75 in coinage in Massachusetts and 1/120 in Pennsylvania. Still it continued. This massive British counterfeiting of the Continentals is ignored by the advocates of private money or commodity money. The British, and just plain crooks, also counterfeited great amounts of the state currencies.

**This counterfeiting shows the British establishment's understanding of how excessive quantity can destroy a money system, contrary to their claims that the Bank of England's issues could not affect prices, as discussed in Chapter 13.**

BREAKDOWN OF THE CONTINENTAL CURRENCY

The Articles Of Confederation were ratified on July 9th, 1778. On

September 1, 1779, the Confederation authorized an upper limit of $200 million for the issues of Continental Currency. They were already at over a 90% discount to coinage. Its important to note that the $200 Million limit was not exceeded.[37] As we shall see in subsequent monetary actions, the U.S. Government has a near perfect record in this regard. It has almost never created unauthorized money, and often has not even created as much as was authorized.

The individual states had continued issuing their own paper notes on an equal footing with the Continental Currency. In 1778 Congress asked the states stop issuing their own notes, but only Delaware and Maryland complied.

From 1775 to 1783 the states issues were as follows:

| | | | |
|---|---|---|---|
| Massachusetts: | $3,868,000. | Rhode Island: | $ 714,000. |
| Connecticut: | $1,516,500. | New York : | $1,161,250. |
| New Jersey: | $1,618,000. | Pennsylvania:. | $4,325,000. |
| Delaware: | $146,500. | Maryland: | $950,000. |
| Virginia: | $128,441,000. | North Carolina: | $33,325,000. |
| South Carolina: | $33,458,926. | | |

**Total issues by individual states: $209,524,776.**[38]

Thomas Jefferson estimated that there were an additional $200 million of British counterfeits of the Continentals circulating, and that's probably a very low estimate. Perhaps someday our British cousins will tell us for the monetary record (if they know) how much they counterfeited. It could have run into the billions.

Another problem was that the states began to restrict the Continentals. As early as October 1777, Massachusetts limited their legal tender power and in June 1781 revoked their legal tender status in the state.

By May 1781 the currency had fallen to 500 to 1 against coinage, then to 1,000 to 1. May 1781 is the last entry of paper money in Washington's diary. From then on the campaign, with French help, was carried on in coinage. The "Continentals" had carried the Nation through six years of the Revolution, to within just 5 months of its successful conclusion.

THE FRENCH FACTOR IN THE REVOLUTION

France's help was essential. She was the first country to recognize the United States, in 1778. The French aristocrat Beaumarchais had been a great supporter of the Revolution, personally advancing about one million dollars.

At times the Revolution seemed more French than American. The French Colonel du Portail, a Brigadier General in the American Army, wrote to Comte St. Germain:

"This is a sluggish people, without energy, without vigour, without affection for the cause in which they are engaged...there is 100 times the affection for the Revolution in any one coffee house whatever in Paris, than in all the United States together."[39]

The French Government loaned $7.9 million to the new nation, and Calonne estimated in 1786 that her overall expenditure toward the American Revolution was $256 million, about one half what it cost England.[40] Jefferson estimated the total American cost at $170 million. The cost to England was £97.6 million (about $500 million). France, in more ways than one, is responsible for the Statue of Liberty standing in New York harbor.

THE DARKEST HOUR OF THE REVOLUTION

Recognizing France's contribution to the Revolution does not detract from the great accomplishment of America's revolutionary leaders; but there was a moment in June 1780 when all seemed lost. Only $151,666 in gold and silver, needed for foreign purchases, had been received by the treasury in 1778 and 1779. The Congressional assembly of 1780 was besieged with petitions for tax exemptions. In the words of the immortal Thomas Paine:

"A declaration to have stood forth with their lives and fortunes... would have sounded much better."

At this point a letter arrived from General Washington. Tom Paine was the Clerk of the House and read Washington's letter to the assembly, warning of mutiny at any moment. Paine recounted:

"When the letter was read I observed a despairing silence in the House. Nobody spoke for a considerable time. At length a member whose fortitude to withstand misfortunes I had a high opinion of, rose: If, said he, 'the account in that letter is a true state of things,...it appears to me in vain to contend the matter any longer. We may as well give up at first as at last.'"

Paine continued:

"With the depreciation of the currency, the slow operation of taxes and the petitions to be exempt therefrom, the treasury was money-less and the Government credit-less.

"The only thing which now remained and was capable of reaching the case was private credit. I drew out the salary due me as clerk, inclosed five hundred dollars (Continental) in a letter to a gentleman in this city...Mr. Blair McLeneghan. I mentioned to him the (state of affairs) and Washington's letter...and the absolute occasion there was for the citizens to exert themselves at this time, which there was no doubt

*14h.* **Tom Paine, America's greatest son and Father of the Revolution, author of *Common Sense*, and *The Rights Of Man*. He had an innate sense of fair play. He put forward the first plan for a social security system in America, and called the Continental Currency a "cornerstone" of the revolution. Testifying to America's present sad condition, there is no national monument dedicated to him commensurate with his importance, and the resting place of his bones is still unknown.**

they would do if the necessity were made known to them; for that the ability of Government was exhausted. I requested Mr. Mcleneghan, to propose a voluntary subscription among his friends."[41]

Mr. Mcleneghan communicated the letter at a coffee house. He and Robert Morris donated £200 each in coinage, and eventually others contributed £1,360 in Continental Currency, nine days later at the City Tavern, where they decided to form the fund into a bank to be called the Pennsylvania Bank, with a subscription of £300,000.

The Congress deposited £15,000 in bills of exchange, and promised more. The Pennsylvania Bank was authorized to issue notes paying 6% interest. It started operations on July 17,1780, and invested in food supplies forwarded to the Army, and in bounties for recruitment.[42]

The next year in February 1781, Congress appointed Robert Morris to the post of Superintendent of Finance. On May 17 he presented Congress with a plan for establishing the Bank Of North America, which passed by one vote on May 26th. It was to be capitalized at $400,000 (1,000 shares at $400 each). The subscriptions of the Pennsylvania Bank were transferred to the Bank Of North America.

However, by October 1781, only $70,000 had actually been paid in, when a French frigate arrived with $470,000 in coinage, which was immediately deposited into the bank. The Government thus owned 633 of the 1,000 shares. The notes were not legal tender, but were accepted by the U.S. for duties and taxes. The bank was given the privilege to issue notes, but didn't do so until January 1782.

In the meantime, on October 19, 1781, Cornwallis surrendered the British forces at Yorktown and the Revolution was won!

## ALL IN ALL, A REMARKABLE PERFORMANCE BY THE CONTINENTALS

The establishment of a national currency by a new Nation in formation would have been difficult even in peacetime (as the European Union now understands). Getting eleven states to give up a large part of their sovereignty - the money power - wouldn't have been easy. Add the counterfeiting by England, and the necessity to fight a revolutionary war against a great power, and it is a wonder the Continental Currency performed as well as it did, for as long as it did.

The importance of the Continentals was well recognized:

"Its powerful if not indispensable agency in gaining our independence," wrote Samuel Breck.[43]

During the war Franklin had written:

"This effect of paper currency is not understood on this side of the water [in England]. And indeed the whole is a mystery even to the politicians, how we have been able to continue a war four years without money, and how we could pay with paper that had no previously fixed fund appropriated specifically to redeem it. This currency as we manage it is a wonderful machine...It performs its office when we issue it, and when we are obliged to issue a quantity excessive, it pays itself off by depreciation."[44]

Franklin realized the injustice of this to fixed pensioners and salaried persons, and proposed legislative remedies for them.

THE AFTERMATH OF THE CONTINENTAL CURRENCY

There was a realization that many patriots had been hurt by the Continental Currency:

"the legal tender legislation…enabled the unprincipled debtor to pay his debts at an enormous discount," wrote Breck.[46]

In war or revolution, people would be hurt - many physically, and the lucky ones just financially. With hindsight, better provision could have been made to prevent the unscrupulous from misusing it, or to correct obvious injustices after the event. The overriding fact remains that the Continental Currency enabled us to gain our independence; it enabled the United States of America to be founded.

Those still holding the Currency were unable to get any value for it (a penny on the dollar), but they were able to have their own nation. Again Thomas Paine captured the essence of the situation:

**"...But to suppose as some did, that, at the end of the war, it 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."[47]**

Paine added: **"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."[45]**

**To Summarize**

For almost two centuries the field of colonial paper money has been miscast in terms of inflation and debasement by the influence of the English school. This misapprehension continues to the present day in spite of excellent works to the contrary, and the testimony of expert witnesses of the period such as Franklin, Jefferson and Paine. But there was one good effect of the mother country's monetary repression - it precipitated the revolution and led to the founding of the United States.

### *Notes to Chapter 14*

[1] Alexander Del Mar, *Did the Hindus Discover America*?, Indian Review, Madras, September 1912.

[2] Alexander Del Mar, *History of Money in America*, (repr., New York: Burt Franklin, pp. 20-30. See also M.W. Dickeson, *American Numismatical Manual*, (Philadelphia: J.B. Lippincott, 1865).

[3] Del Mar, cited in 2 above, p. 88. For a somewhat different view, see Donald Taxay's *Money of the American Indians,* Nummus Press, 1970.

[4] Del Mar, cited in 2 above, p. 90.

[5] Arthur Nussbaum, *The History of the Dollar*, (New York: Columbia Univ. Press, 1957), pp. 25-35.

[6] Brook Adams, *The Emancipation of Massachusetts*, (New York: Houghton Mifflin, 1887), pp. 75-95.

[7] William Graham Sumner, *A History of the American Currency*, (New York: Holt, 1874), pp. 40-50. For more on land banks, see Del Mar, cited in 2 above, Also Brock, cited below, and Sumner, cited above.

[8] Del Mar, cited in 2 above, p.118 quoting Weeden's *Economic and Social History of New England.*

[9] *Dictionary of American Biography*, (New York: Scribners, 1990).

[10] Leslie V. Brock, *The Currency of the American Colonies 1700-1764*, (New York: Arno Press, 1975).

[11] Joseph Albert Ernst, *Money and Politics in America 1755-1775*, (Univ. of North Carolina Press, Inst. Early American Hist. & Cult., 1973), Chapter 1.

[12] Davis Rich Dewey, *Financial History of the United States*, (New York: Longman's Green, 1903), Keith quoted on pp. 26-27.

[13] *"The Paper Money Issued by Pennsylvania"* written anonymously by a member of the Numismatic Society of Philadelphia in 1862.

[14] Dewey, cited above, Keith quoted on pp. 26-27.

[15] Benjamin Franklin, *Autobiography of Benjamin Franklin* 1706-1790, (New York: Macmillan, 1911).

[16] Nussbaum, cited above, p. 25.

[17] Joseph Harris, *Essay upon Money and Coins*, 1757, reprinted in Mculloch's *Rare and Valuable Tracts on Money*, (see Selected Bibliography), p. 374.
[18] Adam Smith, *The Wealth of Nations*, 1776, (Univ. of Chicago Press, Great Books Collection, Encyl. Britannica, 1952), vol. 39, p. 359.
[19] Charles J. Bullock, *The Monetary History of the U.S.*, (New York: Macmillan, 1900).
[20] Del Mar, cited in 2 above, pp. 80-85.
[21] Benjamin Franklin, *Works*, Library of America, Franklin's June 13, 1767 letter from London to Joseph Galloway.
[22] Ernst, cited above, pp. 121-2, including footnotes.
[23] Dickeson, cited above, pp. 70-71.
[24] Bullock, cited above, pp. 47-58.
[25] Sumner, cited above, p. 29.
[26] Del Mar, cited in 2 above, p. 69.
[27] Ernst, cited above, p. 312.
[28] Del Mar, cited in 2 above, p. 96.
[29] Del Mar, cited in 2 above, p. 100.
[30] J.W. Schuckers, *Finances and Paper Money of the Revolutionary War*, (Philadelphia: J. Campbell & Son, 1874), p. 20.
[31] Kenneth Scott, *Counterfeiting in Colonial America*, (Oxford Univer. Press, 1957).
[32] Frank Moore, *Diary of the American Revolution*, (New York: Scribner, 1860), vol. 1, p. 440.
[33] Ben Franklin, *Writings*, cited above, p. 1127.
[34] Scott, cited above.
[35] Schuckers, cited above, p. 23.
[36] *U.S. BUREAU OF STATISTICS*, November, 1872, p.212, as quoted by Del Mar, cited in 2 above, p. 112.
[37] Though about $248 million were actually issued, some were replacements for damaged notes and there were never more than $200 million outstanding.
[38] Schuckers, cited above, p. 127.
[39] Samuel Breck, *Continental Paper Money*, (Philadelphia: J. Clark, 1843).
[40] Schuckers, cited above.
[41] Thomas Paine, *Dissertation on Government, the Affairs of the Bank, and Paper Money*, In *The Writings of Thomas Paine.* Edit. M. D. Conway. (New York: AMS, vol 3, 1967). pp. 18-20.
[42]Lawrence Lewis, *The Bank of North America*, (Philadelphia: Lippincott, 1882).
[43] Breck, cited above, p. 1.
[44] Franklin, *Writings*, cited above, April 22, 1779 letter from France to Dr. Cooper, pp. 422-3.
[45] Paine, *Letter to Abbe Reynal* in *Writings of Thomas Paine*, cited above, p. 87.
[46] Breck, cited above, p. 8.
[47] *Writings of Thomas Paine,* cited above.

# CHAPTER 15

# THE MONEY POWER VS THE U.S. CONSTITUTION

"It was not any confidence in their frothy bubbles,
but the lack of all other money, which induced...
people to take their [the bankers] paper"
**Thomas Jefferson**

The Revolution established The Articles of Confederation as the governing document of the land in 1781. Its key monetary provision was in Article 9, giving Congress the power to "emit bills of credit" - fiat paper money like the Continental Currency. But there were merchants (we didn't have bankers yet) who wanted this power for themselves. They grasped for it before, during, and after the revolution.

EARLY MOVES TO USURP THE U.S. MONETARY POWER:
ROBERT MORRIS SOUGHT IT

Robert Morris (1734-1806) of the firm of Willing and Morris became the richest merchant in America, from revolutionary war profits.[1] He was also an important factor in arranging credits for fighting the war, including Washington's action at Trenton, and his final assault on Cornwallis at Yorktown. But his partner Thomas Willing was accused and examined as a traitor. The story was that he helped the British commander William Howe in his efforts to convince Congress to give up the war and make peace. Willing was not convicted of any wrongdoing.[2]

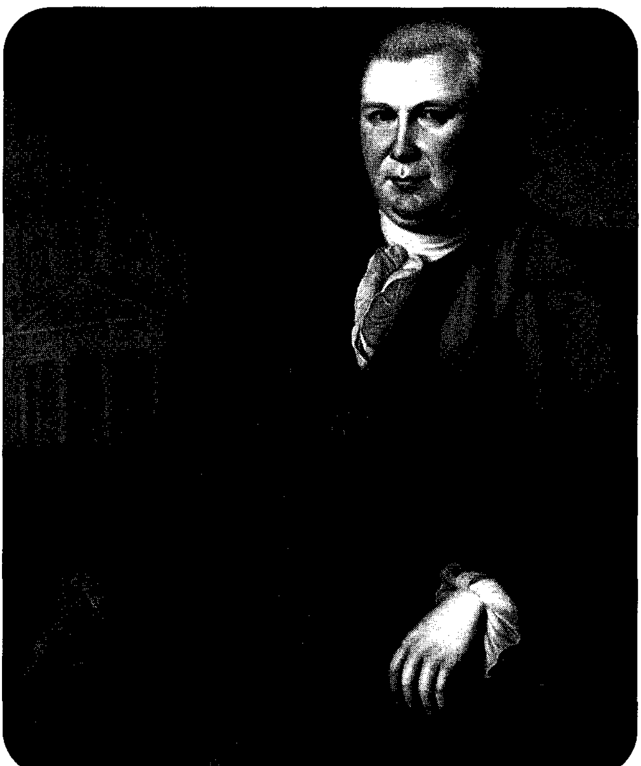
Morris's first attempt to assume the monetary power was in 1763, when he tried to establish a bank, but failed to get the expected financing from abroad.[3] Then, in 1766, his firm was among the gang of eight discussed in Chapter 14 that tried to issue private money in Philadelphia, but were blocked by other merchants.

MORRIS USED THE BANK OF NORTH AMERICA AS A VEHICLE

Morris' next attempt was through the Pennsylvania Bank. When Congress appointed him Superintendent Of Finance in February 1781, Alexander Hamilton sent congratulations and urged him to propose the establishment of a National Bank.[4] During the Revolution, in 1779, Hamilton had put forward his own plan for the "Company Of The Bank Of The United States" to be capitalized at $200 million with a ten year charter. But the plan was considered too grandiose and received little attention.[5]

Hamilton's original instincts were for a bank based on land, to be half owned by the government. Morris's intentions were more on the private Bank of England model.

First he transformed the Pennsylvania Bank into the Bank Of North America, a bank of issue which could create money. Its notes were not



*15a.*
**Robert Morris became the richest merchant in America through war profits on the Revolution. He then attempted to not only privatize the monetary power in the United States, but to actually personalize it!**

legal tender, but were accepted for state taxes and duties, the same formula originally used by the Bank of England. This alteration was approved by a committee of four, including Reverend Witherspoon. Only Madison was vehemently against it. The proposal passed Congress by one vote.

BANK OF NORTH AMERICA

Thomas Willing was made President of the Bank. Subscriptions were slow and, as noted above, the U.S. ended up owning most of the Bank - 633 of the 1,000 shares.

"In this way the Financier was employing public money to establish a financial institution which, though incorporated by the Government and under its general inspection, was largely a private institution," wrote Morris biographer Ver Steeg.

Morris then personalized the Bank's notes, apparently convincing Congress that his personal guarantee of the notes was necessary for their acceptance in commerce. Some of the notes were payable in gold and silver on demand; others were payable at future dates. The gold and silver came from government funds.[6]

But since the issue of the notes didn't start until 1782, after the Revolution had been won, the fact that they were acceptable for state taxes and government duties would be enough to give them substantial power as currency, if history is any guide.

The Morris notes were accepted as cash in Philadelphia, but $400,000 of them circulated at a 10 to 20% discount in New England. Morris's personal guarantee wasn't very good outside Philadelphia; the notes were continually being redeemed for metal. Morris' "guarantee" may actually have worked against their acceptability, for he was considered by many to be a "desperate speculator and as 'a man of talents and intrigue,'" wrote Holdsworth.[7]

When Pennsylvania moved to restart its excellent money system, the Bank of North America under Morris and Willing tried to block her in order to monopolize the issue of money. The memory of how well Pennsylvania's money had performed was still strong in the minds of the citizens and the Bank of North America became extremely unpopular. In late 1785, Pennsylvania revoked its charter and the bank had to get a charter in Delaware.

What other errors did Morris promote? His program on Government borrowing foreshadowed Hamilton's Federalist program. Morris preached that paper money had to be convertible to gold and silver and that the money system must be based on the "interest and influence of the monied men:"

"In the financiers report…he emphasized the need and the virtue of borrowing...Borrowing was beneficial rather than burdensome, he asserted as he sketched the activities of an imaginary (farmer) who made imaginary profits on borrowed funds," wrote Ver Steeg.[8]

But the new nation was not buying Morris' schemes and there was an effort by members of Congress to dismantle Morris' system. When his plans for a national debt were defeated in April 1783, he went back to his other business activities, which ended in bankruptcy:

"Morris' declining years were clouded by sad misfortunes resulting from the disastrous failure of vast business operations and speculation in land, unwisely conducted with too much debt...," wrote Knox.[9]

# THE CONSTITUTIONAL CONVENTION

"We marvel that they saw so much
but they saw not all things."
**Benjamin Franklin Butler**

Up McCagg Road a few miles from AMI's headquarters, a blue metal plaque marks the birth site of Martin Van Buren, 8th President of the U.S. The original house is gone, but the site is beautiful, as it must have been when the young Van Buren grew up in these natural and harmonious surroundings. A mile further up the road is his final resting place in Kinderhook Cemetery.

Van Buren played a big role in the formative years of our nation, and was a conscious warrior in the battle over a Grand Theme of humanity that those early years focused on - and which continues to this day. It was a battle that he waged as a friend of Thomas Jefferson, James Madison, and Andrew Jackson, against what he called "THE MONEY POWER." He gives us a fascinating description of this battle in his book *Inquiry into the Origin and Course of Political Parties in the U.S.*

THE FIRST GRAND THEME - THE NATURE OF MAN

The battle was over the nature of man. Broadly and simply stated, **does mankind need to be ruled by authority or are men capable of self government?**

The outcome of the fight would not only determine our form of government, but could influence the way humanity would develop. For if authoritarianism were applied, distrusting men to make the correct choices, many might then act that way, damaging their spirits. If on the other hand self government was expected, many men could rise to it and set an example for the world.

After the revolution was won in 1781 “It became at once evident that great differences of opinion existed...as to the character of the government that should be substituted for that which had been overthrown,” wrote Van Buren.[10]

One viewpoint held that the British system “was the best that could be devised to promote the welfare and secure the happiness of Mankind.” Although they had been “prompt to resist tyranny” and were “stung by the oppressions practiced upon the colonies by the British Government,” in theory they “tolerated its forms and constitution.” This was the view of the Federalist Party, which included most of the merchants and was led by Alexander Hamilton.

It was the Federalists who had pushed for the Constitutional Convention in 1787, to re-make the Confederation of states into a stronger national government.

Reacting to the Federalist thrust, the opposing popular viewpoint grouped into the Anti-Federalists.

In their drive for a more powerful central government, Van Buren admits that at that time the Federalists, who he generally opposed, were right. As to their opponents, “...they were too much in the habit of regarding (the federal government) at that early period as a foreign government only remotely responsible to them.

“Their minds were thoroughly convinced that those entrusted with power would invariably and incurably abuse it, and therefore it was unwise to grant more power than was absolutely necessary to manage public affairs.” These Anti-Federalists included most of the landowning farmers.

The antagonism between the two ideologies was compromised in the Constitution. While Hamilton’s open desire for a British style Monarchy had no chance of acceptance, the Constitution that was hammered out did strengthen the national government, but also put clever checks and balances into place, which when combined with Madison's Bill Of Rights appeared to block authoritarian rule.

## MONETARY POWER LEFT UNDEFINED

The Constitution gave the Federalists a stronger government, and the anti-federalists had their checks and balances. Everyone would live happily ever after? Not exactly. The Constitution left open a back door through which a form of authoritarian rule could enter, a form more dangerous than monarchy because it was less visible and not understood; and more threatening still because its center of power was outside the nation, to the east.

It would take Jefferson almost twenty years to understand what had been ignored in the Constitution and he would spend the rest of his life doing battle against the MONEY POWER. Jackson's Presidency became literally a life and death struggle with the bankers. Van Buren thought he finally finished them off in 1840, but he was overly optimistic.

**What was the source of so much trouble? The constitution had failed to adequately define the monetary power in the new nation.** Authoritarianism had been kept out politically and religiously, but was allowed to sneak in monetarily!

Van Buren recognized this years later when he wrote "The MONEY POWER (he always capitalized it)...when firmly established, was destined to become the only kind of an Aristocracy that could exist in our political system."

But why did the framers of a document so far advanced in its day regarding the balance between legislative, judicial, and executive power, not realize that the monetary power, if left unchecked, could endanger and ultimately overwhelm the whole structure?

## CONFUSION OVER THE NATURE OF MONEY

The main explanation reflects the thesis of this book - that, as a group, the founding fathers didn't have a good understanding of the nature of money. Even today the various schools of economics have not accurately defined or even agreed on a concept of money. This may be the greatest failure of economics, since money is at the heart of every aspect of it. Economists are still squabbling over the most basic question about money:

## THE SECOND GRAND THEME - THE NATURE OF MONEY

The battle has raged for centuries over this 2$^{nd}$ theme - the nature of money. Simply and broadly stated, is money a concrete power, embodied in a commodity such as gold; or is it an abstract social invention - an institution of the law? Does it obtain its value from the material of which it is made, or from its acceptability in exchanges, due to the sponsorship or even legal requirements of the government? Or is it a hybrid - a combination of these factors?

The supreme importance of the definition of money will now become 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.

However, if, as we have been demonstrating in this work, the true nature of money is an abstract social institution embodied in law - that is, a legal institution - then it is more a creature of governments, and the Constitution had better deal with it adequately. The Constitution must describe how a uniform currency is to be provided, controlled and kept reasonably stable, in a just manner.

**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.**

So the stakes involved in understanding this "money game" are enormous - whether a nation's rule book will promote justice or allow a form of economic slavery.

HOW TO ANSWER THE MONEY QUESTION

There are two basic approaches to gaining knowledge on this question. A logical, or theoretical approach; and a practical approach based on experience - on the facts - what is called an empirical approach. The latter was Van Buren's favored method:

"...experience, the only unerring test...," he wrote.

In the field of money this factual approach relies on history, since that's where mankind's experience with money is found. We also have memories of our own experiences, but the effects of money systems often require several generations to become apparent. It must be kept in mind that logic can become too divorced from reality, and that experience can be misinterpreted.

Chapter 14 recounted the colonists' monetary experience, especially their discovery that abstract paper money - fiat money - builds real infrastructure and wealth; that money works as a medium of exchange and need not be an object of value in itself.

## CONVENTION DOWNPLAYED U.S. EXPERIENCE

But 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. Many wanted to emphasize that the Continentals became worthless; they placed all abstract fiat money under that cloud, and rejected the idea of paper money altogether.

They ignored the fact that paper money was crucial in giving us a nation; that abstract money usually 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. And then there was the little matter of a war against the world's strongest power.

## CONVENTION AVOIDED THE MONEY QUESTION

The Convention met from May to September, 1787, but there had been almost no discussion of the coinage or money powers until August 16th.[11] When we think of the "Founders" at the Convention, remember that Jefferson and Paine were not there and Franklin was so advanced in age that some one else had to deliver his closing speech for him. Van Buren was six years old.

In addition to ignoring the nation's rich practical experience with money, the convention paid little heed to the brilliant writings of John Locke, Benjamin Franklin and others on money. The delegates didn't bother to find out why Locke in 1718 wrote:

"Observe well these rules: It is a very common mistake to say that money is a commodity...Bullion is valued by its weight...money is valued by its stamp."

Locke viewed money as a pledge for wealth, rather than wealth itself:

"mankind agreed to put an imaginary value on gold and silver because of their durableness, scarcity and not being likely to be counterfeited; making them the standard pledges...having as money, no other value except as pledges...it is evident that the intrinsic value of silver and gold, used in commerce depends on their quantity."[12]

They didn't consider the reasons Ben Franklin gave for agreeing with Locke's view: "Silver and gold...(are) of no certain permanent value..." and "We must distinguish between money as it is bullion, which is merchandise, and as by being coined it is made a currency; for its value as merchandise, and its value as a currency are two different things..."[13]

The Convention ignored William Barton's 1786 proposal for a united American paper currency, to be based on the highly successful Pennsylvania system described in Chapter 14. Barton noted that:

"It must appear that we judge very erroneously when we suppose intrinsic value to be inseparably connected with (money)... we may infer that money in its proper signification is not wealth but the sign token or representative of it" and

"We are well aware of the prejudices that have been entertained against a paper currency; and indeed the manner in which it was issued during the last war afforded too much ground for such prejudice. But arguments drawn against the abuse of a thing do not militate against the excellence of the thing itself, or its use," and

"It is easy to conceive why persons who have embarked their funds in the Bank (of North America) are so averse to a currency issued by the Government," and

"The only class of people who could derive any advantage from a mercantile bank among us would be those connected with the institution itself."[14]

## THE ABUSE OF MONETARY THEORY

Unfortunately, the delegates were more influenced by Adam Smith's primitive theory, which heavily supported the Bank of England and contained crucial monetary errors that tended to "legitimize" the Bank's corrupt system of finance. Smith was quoted by delegates to the Convention. He wrote little specifically on money, but his monetary mistakes and inconsistencies have had a disproportionately bad effect on mankind's money systems, promoting the idea that money must be gold and silver. Smith never mentioned the legal concept of money, as put forward by the philosophers and jurists Berkeley, Raithby, Locke, Julius Paulus, Plato, Aristotle, and others (see Chapter 12).

## WITHERSPOON'S "ANONYMOUS" SMOKING GUN

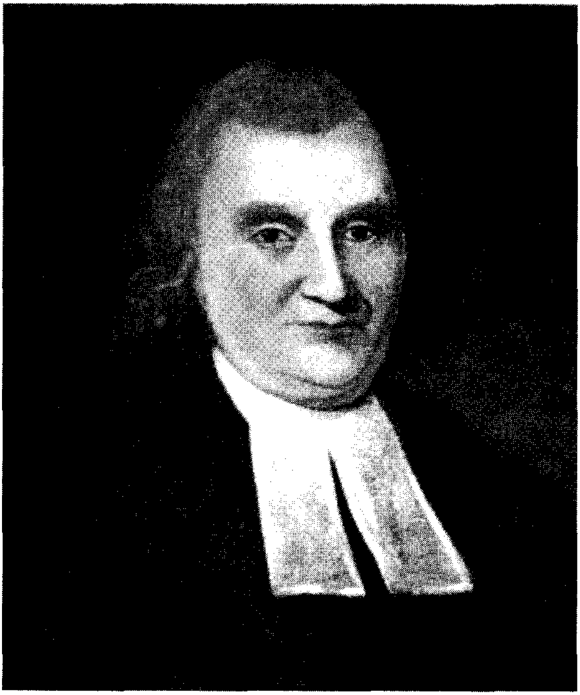
In 1786, anticipating the Convention, a very curious book *Essays on Money* was published anonymously. Its entire thrust was to "theoretically" attack the idea of government paper money:[15]

"State bills are an absurd form of money and not money at all."

Why? - no answer. It turned out to be written by the Calvinist Clergyman, John Witherspoon. Referring to Locke and Franklin's views, he misrepresented their point on money, saying:

"They seem to deny the intrinsic value of gold and silver."

Discussion? - none.



*15b.* **Calvinist John Witherspoon, the only clergyman to sign the Declaration of Independence, devoted great effort to keeping the Constitutional Convention from properly constituting the monetary power in the the new government. The power would then necessarily fall into private hands and there is no historical case where that has worked to the benefit of the society.**

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Then, using a rhetorical device, he stated some arguments for government paper money and stonewalled them, pretending they didn't matter.

Concerning those with personal knowledge of the colonies' paper money systems:

"We are told by persons of good understanding that (paper money) contributed to (the colonies) growth and improvement." Rebuttal ? - none. Concerning the fall of the Continental Currency:

"(Some say it was due to the) Counterfeiting...of our enemies."

Disagreement? No comment.

John Witherspoon (1722-94) of New Jersey was the only clergyman to sign the Declaration of Independence. He had been president of Edinburgh College before immigrating and had written works "assailing the moderate party and its submissive attitude to the state in church matters," wrote McNeal.[16] He had moved to America to become President of Princeton University.

Witherspoon's influence and book did as much damage as any merchant, in leaving the back door open for the MONEY POWER to rule America. This connection between Calvinism and our flawed monetary system is a recurring theme in America, deserving further study.

SOME MERCHANTS UNDERSTOOD

Besides Witherspoon, those delegates who understood most about money were merchants like Robert Morris and Alexander Hamilton. They didn't want the Nation to have the money power because their intention was to assume that power themselves - to take it from the nation as had been done in England.[17]

This would soon be demonstrated when, as Van Buren tells us, Hamilton and his associates put forward "a funding system, upon the English plan,...as the first great measure of the new government..."

"TO EMIT BILLS OF CREDIT"

The coveted monetary power was contained in the five "magic" words "To Emit Bills of Credit." They were already in the Articles of Confederation which was being supplanted. They were the authority under which the Continental Currency and the various colonial moneys came to be issued.

Madison recorded the arguments on this provision:[18]

**Gov. Morris(Pa.)** "The moneyed interest will oppose the plan of government if paper emissions are not prohibited."

**Mr. Mason(Va.)** "The Revolutionary war could not have been carried on had such a prohibition existed."

**Mr. Ellsworth (CT.)** "By withholding the power from the new government, more friends of influence would be gained to it than by almost anything else."

**Mr. Butler (S.C.)** remarked that paper money was not legal tender in any European country.

**Mr. Mason (Va.)** countered that neither was any European country forbidden from making paper money a legal tender.

Madison thought the power was needed for emergencies but wanted to make its acceptance voluntary, not a legal tender. The committee voted 9 to 2 against including the phrase "to emit bills of credit."

The power to create money, long regarded as a key element of sovereignty, was not solidly placed in the new government by the "Moneyed interest," while they hypocritically proclaimed the need to strengthen the national government. They tried to get a clause forbidding it, but failed. The Constitution is silent on the power, neither conferring or forbidding it. In later years delegates would argue over whether they had given the government the power to issue paper money.[19]

What would be the effect of ignoring this power? Delegate Gorham of Massachusetts brushed it off - "The power so far as it is necessary or safe, is involved in that of borrowing."

In other words the government would be forced into borrowing "money" instead of creating it. The honest patriots would assume that the government would be borrowing real assets - gold and silver commodities - and paying interest on it. The merchants, however, knew that they would soon have the government borrowing paper "bills of credit" emitted out of thin air by their private bank, and paying interest on it to the bankers, as was being done in England at the time.

**Their bank would be allowed to do what they had blocked the government from doing - to create paper money - their own bank notes, *pretending* to back them with gold and silver.**

LIMITED U.S. MONEY "POWERS"

Having been sold the idea of money as a commodity, in particular gold and silver, the Convention took minimal monetary actions. The entire Federal monetary powers in the Constitution are:

"Art.1, sec. 8. The Congress...shall have power...to borrow money on the credit of the United States...to coin money, regulate the value thereof, and of foreign coin...to provide for the punishment of counterfeiting." These provisions were unclear enough that for years delegates would publicly argue over what money powers they had placed in the federal government.

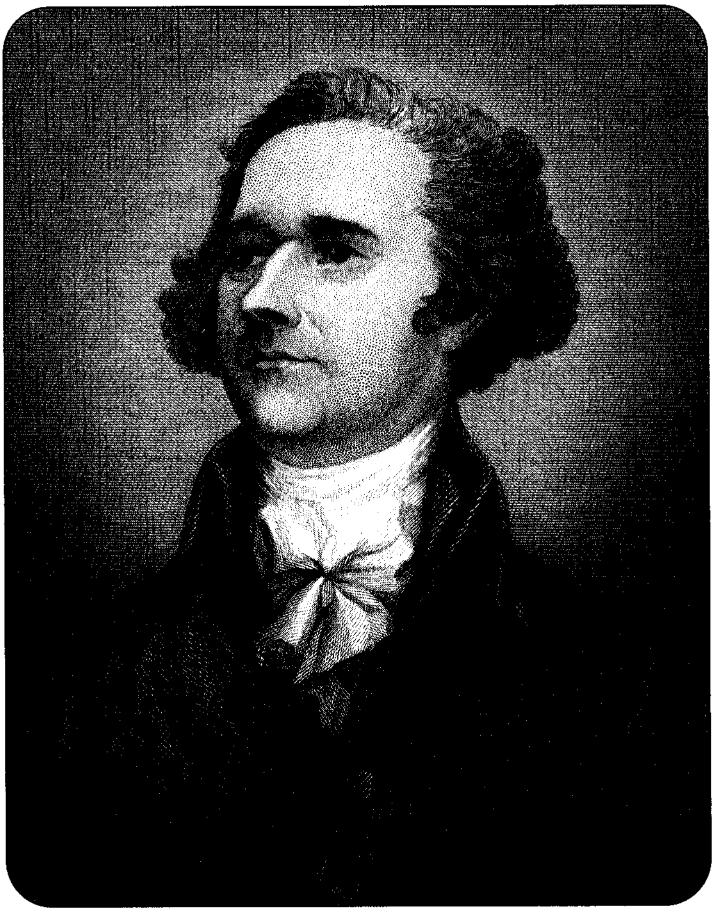
Regarding the individual states, the Constitution declared:

"Art.1, sec.10. No State shall coin money nor emit bills of credit, nor make anything but gold and silver coin a tender in payment of debts..." Note that the monetary power was considered so important that it was explicitly denied to the individual states; yet it would be handed to a private gang of bankers!

Thus the Constitution failed to adequately define money, and how it would be controlled. The European Monetary Union must avoid this error. Whether it takes an extra month or an extra year, its founding documents should explicitly define the nature of money as an institution of the law, and specify how money is to be controlled, expanded and kept reasonably stable and in adequate supply. Up to now they have not done so.

Alexander Del Mar, the great monetary historian and once head of the U.S. Bureau of Statistics, described the monetary result of the Constitutional Convention:

"Never was a great historical event followed by a more feeble sequel. A nation arises to claim for itself liberty and sovereignty. It gains both of these ends by an immense sacrifice of blood and treasure. Then when victory is gained and secured it hands the national credit - that is to say a national treasure over to private individuals, to do as they please with it!...They had before them...the historical examples (where) the main contention from first to last between the aristocratic and popular factions arose out of and centered in the monetary system; that greatest of all dispensers of equity or inequity....They had only to take care that



*15c.* **Alexander Hamilton, leader of the Federalist Party, advanced the interests of merchants and financiers in the new nation until Aaron Burr killed him in a duel. Hamilton tried to withdraw, but Burr was deeply offended and would not allow him an honorable exit.**

the seed they planted was genuine and uncontaminated. Nature was certain to do the rest. Well they planted; and now look at the fruit and see what it is that they planted! They planted financial corporations...they planted private money...they planted financial exemptions from public burdens...In a word they planted another revolution."[20]

These were strong sentiments. It was put differently by Congressman Benjamin F. Butler in an 1869 speech to Congress on the money question:

"We marvel that they saw so much but they saw not all things."[21]

## THE FEDERALIST PAPERS IGNORED THE MONEY DEBATES

The Constitution was sent out for ratification by the States, and essays urging its adoption were written by Alexander Hamilton, John Jay and James Madison. But Madison was not a Hamiltonian Federalist, and later broke with him publicly. In the 85 articles known as the Federalist Papers the monetary question is entirely ignored except indirectly in Federalist # 12:

"Prosperity of commerce is now acknowledged… to be most useful …by prompting the introduction and circulation of the precious metals, those darling objects of human averice and enterprise, it serves to vivify and invigorate the channels of industry."[22]

As to the monetary powers question, all attention in the new nation was focused on the Constitution's limitations against the individual states issuing money.

## EARLY EFFECTS OF MIS-DEFINING THE MONETARY POWER

While the Constitutional Convention decided for self government, against rule from the top down, most of the Delegates viewed money as a commodity rather than an institution of the law. The Constitution trusted the people with the political power, but didn't firmly place the monetary power - the authority to create and regulate the money supply - in their government. As a result the power was left up for grabs. Alexander Hamilton wasted no time in "grabbing."

## HAMILTON AND THE MONEY POWER ATTACK

The Constitution went into effect in 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, and caused as much unpopularity to his administration...as any other act it made."

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 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)."

Madison wisely attempted to have the law pay speculators less than the original holders, but was voted down. Hamilton argued that the sale represented a "contract" to the speculators and had to be honored. He hid the fact that these buyers were given privileged political information. Van Buren tells us: "(Many) believed that the scramble which ensued was foreseen and counted upon as a source of influence to enlist Congress on the side of the administration."[23]

1ST BANK OF THE U.S. ASSUMED THE MONETARY POWER

Hamilton and associates, having kept the monetary power out of government hands, moved to assume it themselves. Arguing that the Bank Of North America was only a state bank and too limited, Hamilton suggested that it come forward if it wanted to alter itself for the national purpose. ***Curiously, the Bank of North America took no steps toward this obvious increase in profit and power.***

Hamilton proposed the establishment of a national bank in his December 1790 *Report on a National Bank.* In February 1791, he pushed the Bank act through Congress. The privately owned bank was to be a bank of issue on the English model, not a bank of deposit on the Amsterdam model. This meant that it would be creating new paper money, not just holding and transferring the coinage deposits of its clients. The government was given 20% of the new banks shares.

**And we see why the Bank of North America was not put forward for this purpose: the U.S. Government had owned over 60% of its shares. Thomas Willing resigned the Presidency of the Bank of North America, to become President of the first Bank of the U.S.**

In written opinions to Washington, Jefferson tried to get him to veto the Bank bill arguing that it was unconstitutional, but Hamilton created the "doctrine of implied powers" to support the federal government's power to charter a corporation. Hamilton had an advantage over Jefferson. His strongest arguments concern the true necessity for a monetary power in society - sudden emergencies such as war; or if the coinage had somehow been removed from a country.[24]

Earlier at the Convention, Hamilton couldn't think of even one reason for such a power when there was a chance it might be properly constituted in the hands of the nation. Then his *Report on a National Bank* echoed Adam Smith's assertions that government could not be trusted to operate it.[25]

His February 1791 letter to Washington doesn't present a strong argument on why the government should give this power to a private group. It is assumed largely because the government didn't command the gold and silver - they were in private hands.

It was therefore crucial to the bankers that the Convention had embraced a commodity concept of money - Witherspoon and Smith's primitive view that money was gold and silver - and the government shouldn't be empowered to issue paper money. But see what this really meant in practice:

The 1$^{st}$ Bank of the U.S. 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!

So the real question in practice was not whether money was a legal power or a commodity, but whether private banks or the government would be allowed to 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**

*15d.* **A $50 note from the first Bank of the United States, dated June 22, 1799, payable at the Boston branch. The note is signed by Thomas Willing, Morris' partner and president of the Bank.**

**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, as had been done in England. 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.

But 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. Same people we had just fought the Revolution against!

Furthermore, "A comparison of the Bank of England act of 1694 and the United States Bank act of 1791 shows that a careful study had been made of the English institution. The powers of the banks, relating to the scope of the business were practically identical," wrote Holdsworth.[26]

The Bank bill passd the Senate on February 8, 1790 by a vote of 39 to 19. Madison and 18 other senators, all but one from southern states, opposed it.

President Washington signed the bill, and the bank started in 1791, with a charter for 20 years. On the day of the offering, the bank's 25,000 shares were over-subscribed by 4,000 shares within two hours! Only one-fourth the $400 cost of a share had to be paid in gold.[27] The rest could be paid for with publicly held government bonds. These were the same bonds Hamilton had used to turn the state debts from pennies into dollars the prior year, at public expense. You can see where the "money" for the bank is really coming from - from the nation.

## A PAPER BANK

Holdsworth describes the ensuing speculation in rights to buy the stock: "Immediately a violent speculation sprang up in bank stock or 'script' as it was called. Two days after the subscription books were closed $35 was paid for a right to the certificate which the commissioners were to deliver, acknowledging receipt of the first cash payment of $25, and within a week sales were made at $50. Brokers offices sprang up on all sides advertising the purchase and sale of bank script."[28]

The script rose to 56 in August 1791, then dropped to 45, rose to 60, then to 100 in two days and from 100 to 150 on a single day, "It was claimed that agriculture, commerce and manufacturing suffered by the withdrawal of considerable sums of specie with which to speculate in bank script," continued Holdsworth.

The Bank began regular business operations on December 10, 1791: "Sumner says: "The belief at the time, and subsequently, was that no more than the specie part of the first installment was ever paid into the bank in specie," wrote Holdsworth, adding that "Bollman writing in 1810, said: 'No more or little more than the first installment, $675,000 can be considered as having been received by the bank actually in hard money.'"

How was the Bank stock paid for? Holdsworth gives the answer: "In a debate in the Pennsylvania legislature in 1793, it was stated that one great source of profit to the Bank of the United States when it was first established was in the discounting of notes for stockholders, to enable them to pay subsequent installments [on their bank stock]. No one seemed sufficiently informed or inclined to defend the bank from this charge, and in the light of facts bearing upon this dangerous practice in the organization of other banks it seems probable that the charge was not groundless."[29] Thus the buyers of the shares paid for them with their own paper notes. The Bank also accepted paper notes from the Bank of Boston and the Bank of New York, in place of gold and silver.

AND THE BANKER'S "ARGUMENT"?

What arguments or justifications did the bankers provide for the great privileges and power to be handed to them through such a private bank? Hamilton's argument, like Smith's, was really a smear: The government shouldn't control the national bank because it was "liable to being too much influenced by *public necessity*...It would, indeed, be little less than a miracle, should the credit of the bank be at the disposal of the government, if, in a long series of time, there was not experienced a calamitous abuse of it."[30]

History shows that the opposite of Hamilton's fears have been realized. His faith in private control was based on trusting to the greed of the bank's owners not to abuse their power. But there was little reason to expect that to work, then, or now.

One finds little other "theoretical justification" advanced by the bankers for private control of the monetary system. The impression is that they were not as much interested in monetary theory, as they were in obtaining the powers afforded by the establishment of the bank.

For example, in Hamilton's letter to President Washington in support of the bank act, the nearest argument on those lines is this:

"Suppose that the necessity existed ...for obtaining a loan; that a number of individuals came forward and said, we are willing to accommodate the government with this money (which we have or can raise) but in order to do this it is indispensable, that we should be incorporated as a bank...and we are obliged on that account to make it a consideration or condition of the loan," wrote Hamilton.

This argument reduces to: we'll be able to get you a loan, if you grant us the monetary power. At the bottom of the argument is the assumption that the nature of money is gold and silver commodities. Thus under this erroneous definition of money, the government has to borrow or tax the "money" from the individuals who own it, rather than to legally create the money, as the bankers would soon be doing through their new-found monetary privilege.

Richard Timberlake confirms this lack of discussion or theoretical justification in the introduction to his book *The Origin of Central Banking in the United States*:

"(The) central banking concept had been fully understood and appreciated by the time of Andrew Jackson. Therefore I presumed it must have first appeared much earlier. So as a postdoctoral continuation of my dissertation, (I) traced back through the primary sources to where the central banking idea had originated and who was responsible for it. Much to my surprise, I could find no trace of its formal initiation."

Timberlake notes that Hamilton's report on the bank reads in sections very much like Adam Smith's writings on the Bank of England. Examining Smith directly for a banker's apologia, in *The Wealth of Nations*, published in 1776, just 15 years before the 1st Bank of the US was founded, we find Smith putting forward this justification for the Bank of England:

"[It] Render(s) a greater part of [businesses] capital active and productive than would otherwise be so" since businessmen can borrow of the bank, instead of being "obliged to keep by him (capital which is) unemployed, and in ready money, for answering occasional demands, (which) is so much dead stock. [The bank] enables him to convert this dead stock into active capital and productive stock...which produces something both to himself and to his country."

But at only one point does Adam Smith refer to the main question of why the central bank should be private and not publicly owned. A careful analysis of the way he does it indicates that he did not wish to clearly frame the question, but obscured it as whether the English Government should be in the banking business for profit, as discussed in Chapter 12.

THE BANK TREADED SOFTLY

Once established, the 1st Bank of the United States operated conservatively, perhaps in an effort to arouse the least opposition and set down roots. According to Jefferson, its loans were generally made to importers. Under Hamilton the U.S. debt to it was continually built up and had grown to over $6 million by 1795. Furthermore, Hamilton obscured the nation's financial situation. Thomas Jefferson complained to James Madison:

"Dear Sir: I do not at all wonder at the condition in which the finances of the United States are found. Hamilton's object from the beginning was to throw them into forms which should be utterly indecipherable."[31]

Twentieth Century financial textbook writers Studenski and Kroos have confirmed that:

"It was impossible to ascertain from (Hamilton's) accounts the exact amount of government receipts or expenditures or national debt. Indeed no clear statement of the debt was ever presented by Hamilton..."[32]

Holdsworth confirmed that: "In the early days of banking a veil of mystery was thrown over the operations of banks, and the general public knew but little of their nature or modus operandi. Even the bank of the United States, semi-public institution though it was, published no reports...A careful search has failed to reveal any trace of the original books and records of the bank."[33]

So while the records of the publicly owned Bank of Amsterdam from 1609 are still intact in Holland, the records of the privately owned first Bank of the United States from 1800 are completely lost!

GOVERNMENT FORCED OUT OF ITS SHARES

Owning part of the Bank was very beneficial to government, bringing over $1,101,720 in dividends from Bank stock to the Treasury. Predictably, the merchants would covet the Government's shares. In 1796-97, the Bank forced the Government to sell over half of its 5,000 shares to reduce its "debt" to the Bank. Then in 1802, the Government's remaining 2,200 shares were sold to Baring Brothers in London, to reduce its debt. These share sales brought a total of $671,860.[34] To his credit, Hamilton is reputed to have opposed the sales.

## THE FIRST U.S. COINAGE

It was not until 1794 that the U.S. minted its first silver dollar, at 416 grains; and in 1795 its first gold coin, the $10 Eagle at 270 grains, 11/12ths fine. Hamilton had set the ratio at 15 to 1, following Isaac Newton's example, but this slightly undervalued gold in relation to British markets.

## THE RETURN OF THOMAS PAINE

Tom Paine, America's greatest son, originated the idea of American independence, and prepared the public mind for it with his publication of *Common Sense*. On returning home in 1802 after trying to help France's Revolution, he wrote:

"A faction (the Federalists) acting in disguise, was rising in America; they had lost sight of principles. They were beginning to regard government as a profitable monopoly, and the people as hereditary property."[35]

The Federalists were pushing for war:

"A war in some shape or other seems to have been the great object with Hamilton's people. First they would have war with the northern Indians. That failed...Britain at one time seemed their target. Great efforts were made to get a war with Algiers. That failed. Now it seems to be a point to differ with the French," wrote William Maclay, a member of the lst Congress, in his daily journal.[36]

The Federalist pretext for war with our revolutionary ally France was over New Orleans and the Mississippi basin. Had they succeeded, a huge buildup in the U.S. debt for the cost of such a war would have forever entrenched the Bank of the U.S. This was the formula used earlier to entrench the Bank of England.

Paine blocked it, suggesting to Jefferson that he ask the French about buying the land. This led to the Louisiana Purchase, and stopped the bank from sinking blood soaked roots into the nation, as the Bank of England had done in its host country a hundred years earlier.

## THOMAS PAINE'S MONETARY VIEWS

Tom Paine at first held a commodity view of money: "Its being stamped into coin adds considerably to its convenience but little to its value....the value is not in the impression but in itself ...The only proper use of paper in the room of money is to write promissory notes and obligations of payment in specie thereon," he wrote, repeating the sentiments already well propagated by the Adam Smith gang, "As to the assumed authority of any assembly in making paper money...a legal tender...there can be no such power in a Republican government...tender laws of any kind, operate to destroy morality, and to dissolve by the pretense of law what ought to be the principle of law to support, reciprocal justice between man and man: and the punishment of a member who should move for such a law ought to be death."[37]

Later, in 1796, while in France, Paine launched an attack against the Bank Of England, in a piece called *The Decline and Fall of the English System of Finance.* To do this he had to investigate and understand money better. His conclusions indicate a change in viewpoint, and an awareness that quantity and not intrinsic qualities determined the value of money:

"The same fate would have happened to gold and silver, could gold and silver have been issued in the same abundant manner that paper had been, and confined within the country as paper money always is."[38]

Paine also began to understand central banking:

"There is something curious in the movements of this modern complicated machine, the funding system; and it is only now that it is beginning to unfold the full extent of its movements. In the first part of its movements it gives great powers into the hands of government, and in the last part it takes them completely away."[39]

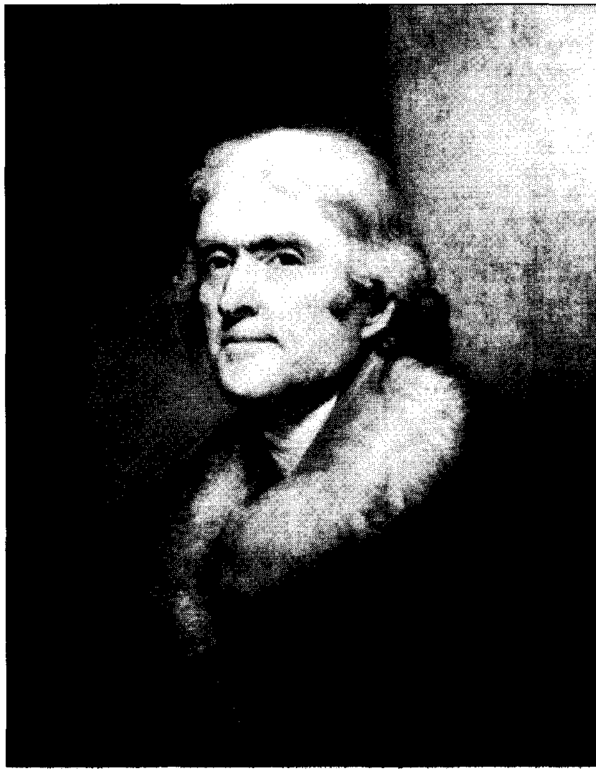
Though Tom Paine's strong suit was not in the monetary area, his attack temporarily brought the Bank of England to its knees. There is little doubt that he would have mastered the subject with sufficient time and study, for in *Agrarian Justice* he came close to inventing a fiat money system while putting forward the first proposal for a type of social security system for America. Unfortunately his final short years were spent in terrible poverty in lower Manhattan, in a nation too ready to forget his great contribution, a nation that has not yet earned the right to build a memorial honoring this great man. Jefferson had attempted to have the Virginia legislature grant Tom Paine a piece of land, but was blocked by supposedly religious elements.

## JEFFERSON FINALLY UNDERSTANDS MONEY

Jefferson continued to fight the bank, aware of the danger it posed. In a December 1803 letter to Treasury Secretary Gallatin he wrote:

"This institution is one of the most deadly hostility against the principles of our Constitution...suppose a series of emergencies should occur...an institution like this...in a critical moment might overthrow the government."

*15d.*
**In his mature years, Thomas Jefferson, author of the Declaration of Independence and 3rd U.S. President, came to understand the Money Power, and what had been left out of the Constitution. He became aware of the necessity for the government, not private banks, to control the money system and worked toward that goal.**



**Jefferson, Paine, and others were at a real disadvantage fighting Hamilton and the bankers, for in their earlier years they held a commodity view of money as gold and silver. They saw their enemies - the bankers - creating paper money, and this reinforced their view that it was evil! It took Jefferson years to realize that it was not paper money, but the private issuance of it that was the problem (i.e. the circulation of private debt as money).** We observe his development chronologically through his letters:

In Nov. 1798, watching Hamilton increase the national debt, he wrote to John Taylor: "I wish it were possible to obtain a single amendment to our constitution...taking from the federal government the power of borrowing money. I now deny their power of making paper money or anything else a legal tender."

In December, 1803 he asked Gallatin:

"Could we start toward independently using our own money to form our own bank...?"

By June 1813, Jefferson had figured it out, judging from his letter to

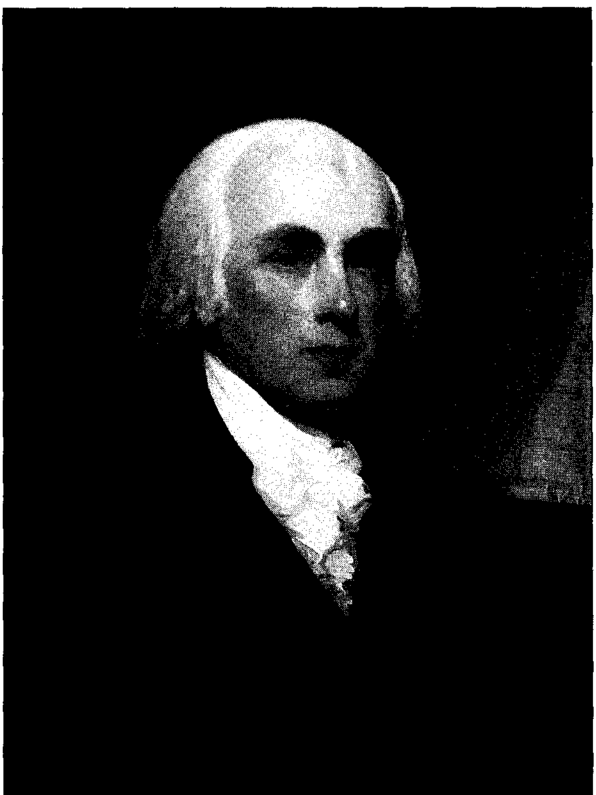
John Eppes:

"Although we have so foolishly allowed the field of circulating medium to be filched from us by private individuals, I think we may recover it...The states should be asked to transfer the right of issuing paper money to Congress, in perpetuity." And:

"...the nation may continue to issue its bills as far as its needs require and the limits of circulation allow. Those limits are understood at present to be 200 millions of dollars."

Finally in October 1815, Jefferson wrote Gallatin:

"The treasury, lacking confidence in the country, delivered itself bound hand and foot to bold and bankrupt adventurers and bankers pretending to have money, whom it could have crushed at any moment...These jugglers were at the feet of the government. For it was not, any confidence in their frothy bubbles, but the lack of all other money, which induced...people to take their paper…We are now without any common measure of value of property, and private fortunes are up



*15e.* **James Madison, father of the U.S. Constitution and the Bill Of Rights. In May of 1791 he and fellow Virginian, Tom Jefferson, took a one month coach trip through the colonies, mapping a political strategy for the future. They passed just three miles from AMI's offices on the Old Post Road in Kinderhook, a section of which (next to Lindenwald) has been preserved unaltered.**

or down at the will of the worst of our citizens... As little seems to be known of the principles of political economy as if nothing had ever been written or practiced on the subject, or as was known in old times, when the Jews had their rulers under the hammer."[40]

BURR SHOT HAMILTON

Hamilton's influence ended when Jefferson beat him for the Presidency in 1800. In the Electoral College, Aaron Burr had cast the deciding vote for Jefferson, against Hamilton. In 1804, Burr, a man with very strong connections to Kinderhook, and to Martin Van Buren, killed Hamilton in a duel over a personal slur Hamilton made on him. Burr rejected his attempts to apologize.

With his own library of over 3,000 books, Burr had some awareness of monetary matters. His father and grandfather had been presidents of Princeton University. When Congressman Sedgwick asked his opinion of Hamilton's bank legislation, in February 1791, Burr referred him to the philosopher David Hume's essays on money. Opposite from Adam Smith, Hume advocated that if you must have paper money, a government owned bank "offers some advantages."

TAKING THE 1st BANK OF THE U.S. DOWN

In 1811, thanks partly to Jefferson's influence, the Bank's re-charter was turned down by one vote in Congress. On liquidation it was found that 18,000 of the bank's 25,000 shares were owned by foreigners, mostly Dutch and English. While the revolution was fought to end foreign domination, it was being re-insinuated through the bank:

"The fact that 1800 of the 2500 shares [Conant has dropped a zero] were held abroad was made the occasion of bitter attack on the bank," wrote Conant, noting that on February 12, 1811, Congressman Desha of Kentucky declared in the House that "This accumulation of foreign capital was one of the engines for overturning civil liberty, and that he had no doubt King George III was a principal stockholder."[41]

But the largest single stockholder was American slave trader Stephen Girard: "When the charter of the Bank of the United States expired in 1811, Stephen Girard, then the foremost merchant and the wealthiest man in the country, was the largest stockholder," reports Holdsworth.[42]

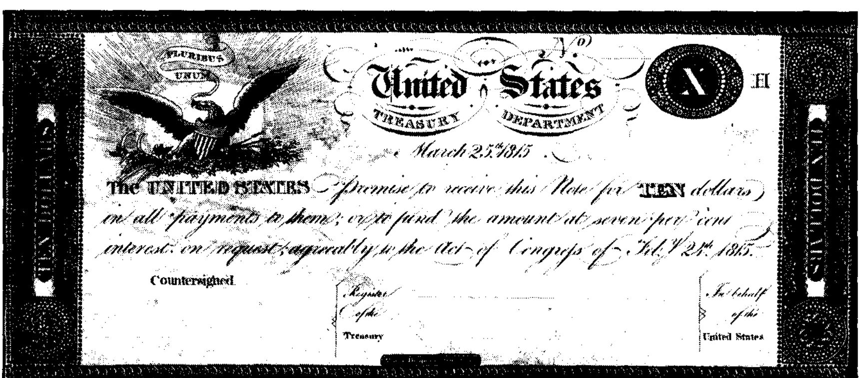
The bank's demise was not really a great victory against the private money issuers, for by then over 100 private banks had been chartered by the state governments. While the Constitution forbade the states from issuing money, it did not stop state chartered banks from issuing money! These state banks wanted to remove the Federally chartered Bank of the U.S. from its advantageous position, so they helped put it under politically. They also blocked the Bank from obtaining a charter from Pennsylvania, after its Federal charter expired.

## THE FIRST PAPER MONEY ISSUED BY THE UNITED STATES

Contrary to predictions, no financial calamity followed the liquidation of the Bank. The U.S. Treasury followed very much the course being advocated by Jefferson, and as outlined in detail in his 1813 letter to Eppes, and alluded to in his letters of 1803 and 1815 to Gallatin. On June 30, 1812 on Gallatin's recommendation or agreement, \$5 million in one year Treasury notes were issued to compensate for the removal of money supply no longer provided by the Bank. They paid 5.4% interest, were payable in metal on demand, were transferable from one party to another by assignment, and were redeemed after one year. No small notes were issued - all were \$100 and over.

The notes were spent into circulation, by paying them to government creditors willing to accept them at full value. They were receivable for taxes and fees. Additional issues were made in February 1813, March 1814, and December 1814 with denominations as low as \$20. These notes were easier to transfer, but not easy enough for currency transactions.

This was corrected in the February 1815 issue, which were bearer certificates paying no interest, and requiring no transfer formalities. They had no date for repayment, were denominated under \$100 and




*15h.* **A \$10 U.S. Note from March 1815. When used as money, it was a bearer instrument paying no interest. They could be converted on request into a security paying 7%.**

were very close to a true money. These notes were not given legal tender status by the Congress. Holders could convert them into 7% interest bearing securities, on request.

**The amount of all such notes authorized was $60.5 million, of which only $36.7 million were actually issued, about $3.5 million in small notes.[43] Thus our government didn't abuse this note issuing process, and didn't even issue the full amounts authorized, but acted responsibly in its first ever creation of money.**

About a hundred years later, J. Laurence Laughlin, a banker apologist professor at the University of Chicago, bitterly complained:

"Here we have an unmistakable case of 'bills of credit' intended to circulate as money… The seat of sovereignty being in the people, when did the people confer upon Congress all the attributes of sovereignty which may have been claimed by an unlimited ruler?"[44]

Someone should have asked Laughlin, When did they confer the same sovereignty he refers to - the power to create money - upon the bankers? His phrase "which may have been claimed by an unlimited ruler" is very revealing of the kind of power the bankers usurped.

Clearly the United States was coming "dangerously" close (from the bankers viewpoint) to establishing its own currency. All that was needed was to sever the connection to gold and silver. In 1814 a bill was introduced into Congress by Representative Hall of Georgia:

"That the treasury notes which may be issued - would become legal tender among citizens or between a citizen of the U.S. and a citizen of any foreign country." The House, still under the sway of the financial interests, turned it down 94 to 45![45]

REAL NEED FOR A CENTRAL BANK

In 1814, a large portion of the currency circulating in the U.S. were the bank notes of the then existing 208 state banks. These notes were theoretically exchangeable for coins, but the coinage was never really there, and redemption had been widely suspended since the War of 1812. They maintained value mainly because the government accepted them in payments.

By 1814 the government had accounts in 94 banks, keeping four different accounts in each of them: one for local bank notes, one for out of state bank notes, and two others for U.S. Treasury notes. Much of the Treasury's revenue was useless because it was collected in state bank notes that were not accepted in other states. This fiscal situation was chaotic and the Treasury is known to have lost about $6 million as a result - a huge amount at that time.

## MADISON'S DALLAS PLAN BLOCKED

To resolve this problem, in 1814 President Madison tried to set up a central bank of issue, which would be 40% owned by the government. But the measure, known as the Dallas plan, named after Treasury Secretary Dallas, could not get through Congress in its initial form, and Madison vetoed the version that passed. Knox tells us that the details of this Plan have been lost, and that the "(Dallas) scheme of 1814-15 was looked upon as one for a paper national bank..." because the money was to be backed by U.S. Treasury notes.[46]

Senator Calhoun of South Carolina objected to the private participation, and put forward a plan for a national bank to be government owned:

"Calhoun objected to a financial partnership of this character in which the government would borrow back its own credit, and in a second plan proposed that the Government should use its own credit directly without the intervention of a bank...," wrote Dewey.[47]

Henry Clay, who earlier had thought that state banks were sufficient for the nation's monetary system, changed his mind to support such a plan:

"But it now appeared to him that the general Government could no longer depend upon them. A national bank seemed to him not only necessary but indispensable," wrote Knox.[48]

The proposals were blocked, and in the chaotic state bank currency atmosphere, Madison, aware that a central bank was crucial to the nation, signed a bill allowing another privately dominated bank - the 2$^{nd}$ Bank of the U.S. with only 20% government ownership.

***In these maneuverings (which deserve closer study) we see an important principle: it was not a case of the financially savvy elements providing the nation with the know how and mechanisms that would otherwise have been unavailable. The fact is they blocked and impeded, over and again, all attempts to establish monetary systems that would have better served the national interest. They engaged in a form of financial treason.***

## OPPOSITION FROM THE STATE BANKS EVAPORATED

Opposition from state chartered banks was removed by the 2nd Bank of the U.S. promising to take over the government's holdings of their irredeemable notes. In effect they were technically bankrupt as they couldn't honor their notes with metal. The state banks were given 10 months to re-establish redeemability for their notes. After "February 20, 1817, all payments to Government were to be made in coin, Treasury notes, notes of the U.S. bank, or bank notes payable on demand in specie," wrote Studenski and Kroos.

Subscriptions for the bank's shares opened in June 1816. A total capital of $30 million was to be raised. However:

"When $3 million of the stock remained un-subscribed, it was taken by Stephen Girard, who with John Jacob Astor and David Parish had been instrumental in promoting the charter," noted Studenski and Kroos.[49] Girard was a prominent Philadelphia slave trader; thus profits from the slave trade were closely connected with private banking. This area calls for further research.

In January 1817, the 2nd Bank of the U.S. received its charter for 20 years. The paper notes of the bank were not declared a general legal tender but were acceptable for all government payments. Remember this was the formula used by the private Bank of England, and the 1st Bank of the U.S. The conscious element among the bankers are aware that this is the essential defining characteristic of money. The bank would handle payments destined for the government and keep the government's accounts.

THE 2ND BANK OF THE U.S. - THE BANK FROM HELL

The 2nd Bank of the U.S. operated illegally from the beginning - although the first installment for shares was in gold, the 2nd and 3rd installment payments were accepted in IOU's from state chartered banks:

"The bank violated its charter from the outset," wrote Charles Conant, "The proportion of gold required to be paid in on the second and third installments was never paid.[50] So again the banker's gold "requirement" turned out to be a masquerade.

William Jones was appointed as president of the Bank. He had previously been ineffective as Treasury Secretary: "In his person helpless inefficiency was placed in control of government finances," wrote Ralph Catterall.[51] Perhaps the intention was to run the bank from behind the scenes. The written histories of the 2nd Bank of the U.S. read like financial soap operas.

The bank immediately began a criminally insane 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 $2.5 million. This tremendous expansion caused a wild speculative boom.[52]

Roughly 60% of the early loans were made in the Philadelphia-Baltimore area.

In August 1818, the bank turned abruptly and began a criminally 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 I819. Its circulating notes dropped from $10 million to $3.5 million in 1820.

A massive wave of bankruptcies swept the nation. The South and West were particularly hard hit. In the South, the bank undermined the feeling of national unity and must be viewed as a major contributing cause of the civil war.

Real assets that had been pledged to the bank and its branches for loans were seized, with sheriff's sales everywhere. Farmers and artisans, dispossessed of a lifetime's work, moved west. A public outrage arose throughout the land.

A Pennsylvania commission led by the economist Condy Raguet condemned the bankers as the cause of the problem:

"...the incorporation of the monied interest, already sufficiently powerful of itself, was but the creation of odious aristocracies, hostile to the spirit of free government, and subversive of the rights and liberties of the people."

*15f.* **From behind its elegant classical facade in Philadelphia, the private 2nd Bank of the United States perpetrated some of the worst financial villainies upon our young nation.**

Yet instead of a debate over whether a private company should be allowed to ravage the nation's money system like that, the MONEY POWER managed to deflect the uproar and stage-managed the debate into arguments over whether an "inflationary" policy or a "sound money" policy should be followed.

The management of the bank was changed and in 1823 Nicholas Biddle was elected its president. He ran the bank more carefully. Biddle had been a child prodigy in Greek Classics, finishing his University of Pennsylvania studies at age 13. Biddle originally refused to become a director of the Bank, but President Monroe pressed him to accept one of the governments directorships on the bank board and he did so out of a sense of duty.

REGRESSING AMERICAN MONETARY THOUGHT

The monetary thought that is most easily found in the historical record, shows a definite regression from the abstract level attained by Jefferson, as seen in his long letter to Eppes. Under the dominating influence of Adam Smith, American monetary thought was reverting to metallism - a feature so convenient, if not essential, to the bankers, in theory, though not in practice.

Condy Raguet, an early economic commentator whose 1820 report correctly condemned the bankers for the 1819 debacle, unfortunately held Adam Smith in high regard. Smith's anti-government position insisted on private control over the nation's money system. As a result Raguet became confused and contradictory when it came to the idea of a nation having its own national bank to issue currency. Yet he made an honest proposal to reduce private banking evils:

"The true and only answer is by establishing individual liability" for the directors and officers of the banks.[53]

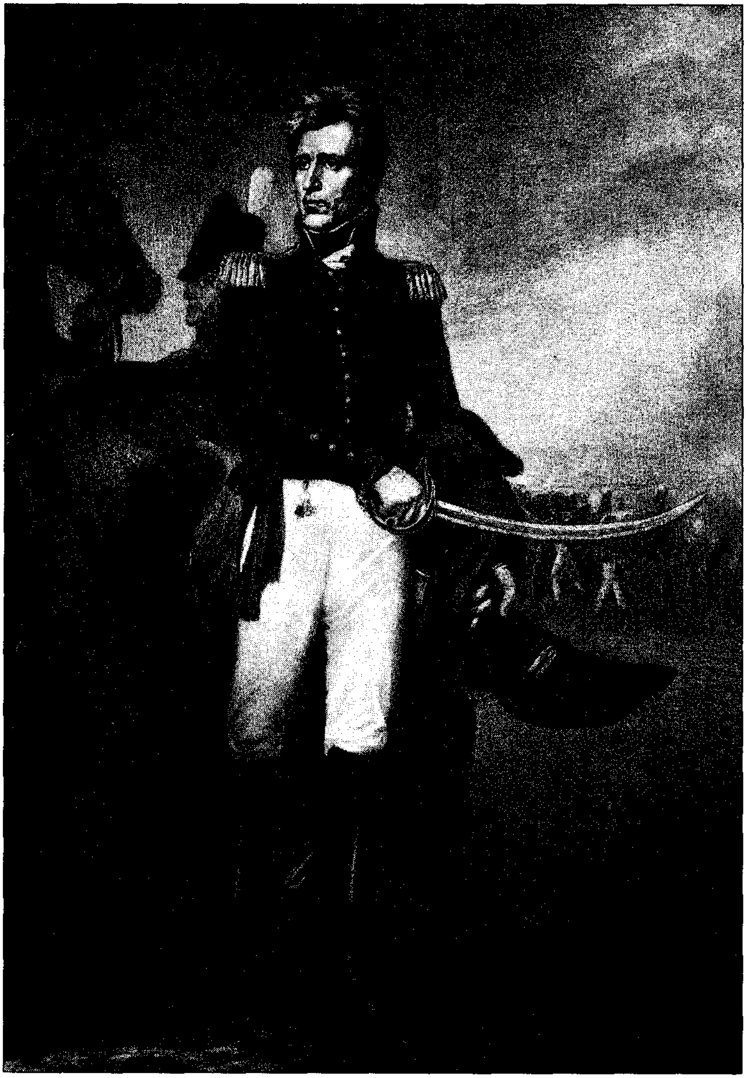
State legislatures would later apply this measure to shareholders of the state banks, but limited it to double the par value of their shares.

When Ricardo's monetary views began to be known in America after 1810, they provided some relief from Smith's pro-banker position. As discussed in Chapter 12, though Ricardo held virtually the same definition of money as Smith, he correctly attacked the notion that private individuals should control the nation's money creation process. This is not an endorsement of his other economic views.

In 1820 another American, Daniel Raymond, wrote some early works on economics: *Thoughts on Political Economy*; and *Elements of*

*Political Economy*. He called for the elimination of bank created paper money, and for the Federal government to supply the country with a national currency backed 100% by gold and silver.

This was close to Ricardo's proposal to reform England's monetary system. Raymond attacked Adam Smith and Alexander Hamilton for



*15f.* **Andrew Jackson, victor at the Battle of New Orleans. As 7th President of the United States he faced a trickier foe in his war with the 2nd Bank of the U.S., a saga that reads like a financial soap opera.**

their assertion that private bank notes added to the Nation's capital. Condy Raguet was also aware of this "error." Both supported the "Quantity" theory of money, Raymond citing the philosopher David Hume:

"...In proportion as money is increased in quantity, it must depreciate in value."

with Condy Raguet clearly stating:

"Every emission...of these bank notes and credits is an augmentation of the currency and depreciates it below the general level."

***However, both of them made the error of equating gold with money. They failed to make the critical distinction between wealth and money.*** Considering that Franklin and Locke and Berkeley had shown better thought, this error should have been avoidable.

In 1831 Albert Gallatin's son Robert published *Considerations on the Currency and Banking System of the United States*. Familiar with Ricardo's proposal to establish a national bank and eliminate private banks from the money creation process, Gallatin first praised it:

"A very ingenious idea was proposed by Mr. Ricardo."

But then he asserted that the dispersal of money would become "political," and he followed in Adam Smith's destructive footsteps:

"The President of the U.S. (Jackson) has expressed the opinion that the bank failed in the great end of establishing a uniform and sound currency and has suggested the expediency of establishing 'a national bank founded upon the credit of the government and its revenues'...and although we (Gallatin) are clearly of the opinion that the U.S. at large are entitled to the pecuniary profit arising from the substitution of a paper for a metallic currency, we are not less convinced that this object cannot be obtained in a more eligible way and more free of objections than through the medium of a national bank, constituted on the same principles as that now existing...

"The advantages which the Bank derives from its charter by being permitted to issue paper...must be allowed in addition to the usual interest on its capital, a reasonable profit; since it incurs all the risks and is liable for all the losses incident to those operations....the government receives already a portion of the profits in the shape of those services which are rendered gratuitously...for the residue."[54]

Thus the younger Gallatin was ready to allow plutocratic control over the nation's money - to create paper money out of thin air and in effect control the nation's economic life - all in exchange for the service roughly equivalent to maintaining a simple checking account for the government!

## PRESIDENT JACKSON WANTS A GOVERNMENT BANK

Andrew Jackson and his Vice President Martin Van Buren considered the Bank as the main threat to the Republic: "Ever since I read the history of the South Sea Bubble I have been afraid of banks," Jackson had written to Biddle, unnecessarily alerting the enemy.[55] Jackson really wanted to set up a government owned bank. Sensing that a simple deposit bank wasn't enough, he assigned some of his economically oriented associates to figure out how to do it as a bank of issue, but they failed to come up with any proposals after five months.[56]

The abstract monetary awareness finally achieved by Jefferson was already being lost to easy-to-grasp concretes like gold and silver. Jackson's experts (including Alexander Hamilton's son, who, like the young Gallatin, had taken a different path from his father) told him a government bank would make political loans, apparently the banker's mantra of that time. But what would you call the loans made by the 2nd U.S. Bank? Perhaps what he needed was not a banking expert but a government expert - who could devise political insulation for a monetary department.

## JACKSON'S WAR WITH THE BANK

In 1832 two events precipitated Jackson's confrontation with the bank. First, the bank made an illegal arrangement with Baring Brothers, whereby instead of redeeming the 3% government bonds Baring was holding - the last of the revolutionary war debt - the bank instead held onto the government funds that were intended to repay the bonds. The arrangement allowed the bank to earn 7% on the government moneys it held, while paying Barings 3%.

Then, when a French Government check (bill of exchange) to the U.S. for $961,240 had temporarily bounced, the bank demanded 15% of the bill as damages, even though the U.S. Treasury had returned the money and offered to pay the actual costs involved. The bank deducted the 15% from the government's accounts. The U.S. had to sue to get the money back and didn't collect until 1847!

Jackson had intended to let the Bank's charter expire in his second term, but the Bank's activity in purchasing congressional support alarmed him as his veto could be overridden. He wrote to a friend:

"I have no hesitation to say if they can re-charter the bank with this hydra of corruption they will rule the nation and its charter will be perpetual and its corrupting influence destroy the liberty of our country. When I came into this administration …I had a majority of 75. Since then it is now believed it (the bank) has bought over by loans, discounts, etc until…there were 2/3 for re-chartering it."[57]

Once the privilege to create money has been given to a bank, it can use that power to protect itself through bribery. At one point in the fight, David Gulliver wrote to Biddle:

"...all hope is now in bribery!"[58]

Senator Benton later estimated that "advocates of the bank spent $3 million in bribing senators, members of the House of Representatives and editors of Newspapers."[59]

Biddle made huge "loans" to newspaper editors, to stifle opposition:

"Duff Green (Washington Telegraph) ceased to oppose; while Webb and Noah (New York Courier and Enquirer) became active supporters instead of bitter opponents...a $15,000 loan did it...then another $20,000, then another $15,000."[60]

EVEN THE "GREAT" DANIEL WEBSTER IS CORRUPTED

Biddle paid Daniel Webster $32,000 in "loans," and then stopped

*15h.* **Two pistols misfired in an assassination attempt on President Jackson during his fight with the 2nd Bank of the U.S. The would-be killer had recently returned from a trip to England.**

paying. He received this note:

"I believe my retainer has not been renewed or refreshed as usual. If it be wished that my relation to the bank should be continued it may be well to send the usual retainers, yours with regard, Danl Webster."[61]

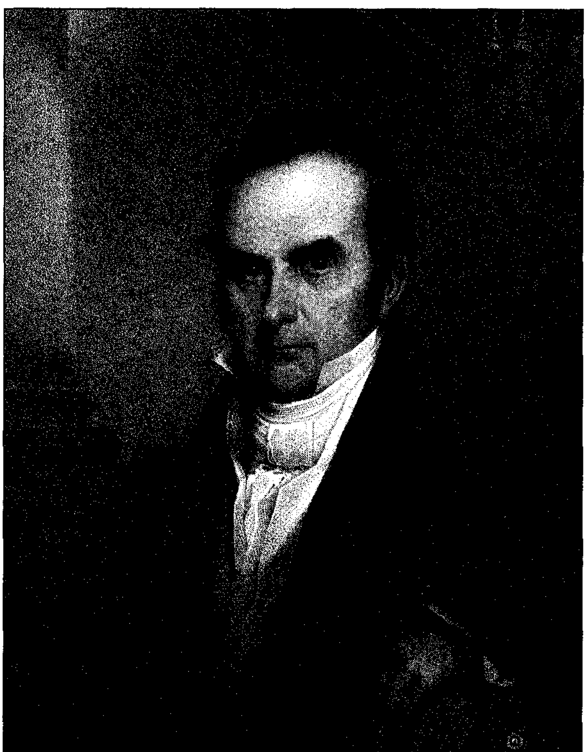
In July 1832 Congress voted to re-charter the bank. Van Buren returned from England the same day. Jackson had overtaxed his strength and taken to bed:

"Holding (Van Buren's) hand in his own, and passing the other through his white locks, Old Hickory (Jackson's nickname) said: 'The Bank, Mr. Van Buren, is trying to kill me, but I will kill it!'"[62]

Van Buren re-told the story:

"I have not forgotten the gratification which beamed from his face when I said I hoped that he would veto it...not that he was ignorant of my views on the subject, for in all our conversations on the Bank...and they had been frequent and anxious, - my voice had been against the then existing and any other national bank."

Jackson vetoed the bank's re-charter, and issued a lengthy "Veto



*15g.* **Daniel Webster supported the 2nd Bank of the U.S. with speech and pen, against Jackson. Much later he was found to have received over $32,000 from the Bank in payment for his support.**

Message" explaining it in great detail. He pointed out the unfairness of the bank's monopoly, calculating its value in millions of dollars and noted how inappropriate it was that:

"Of the $28 millions of private stock in the corporation, $8,405,500 were held by foreigners, mostly of Great Britain."[63]

Daniel Webster then issued an answer to Jackson's Veto Message, in support of the Bank. We can guess how little attention the public would have given to Webster had they known he was in the pay of the Bank.

Jackson instructed Treasury Secretary Louis McLane to start removing government deposits, about $7 million. McLane refused and had to be replaced by William Duane who also refused and was replaced by Attorney General Roger Taney. Taney slowly drew down the government funds and deposited them in other banks.

Meanwhile the Senate refused to confirm Jackson's new appointees to the Bank's board on the grounds that they wanted too much information about the Bank's affairs!

Biddle had been contracting the nation's money supply, and the removal of government funds accentuated that. However, "Biddle went far and away beyond anything required by conservative banking," wrote James.[64] From August 1833 to February 1834 he called in over $18 million in loans. The challenge to Biddle's power may have affected his mind. He began making rash statements in letters to associates:

"(Are we) to suffer ourselves to be trampled down by the merest rabble?." And:

"My course is decided...all the other banks and all the merchants may break, but the bank of the U.S. shall not break!"[65] and:

"The prospects of the bank are I think favorable. The state of the country is so bad and gets worst daily. I do not see how things can hold on in this way much longer...Congress will soon have to act."[66]

In January 1835 an assassination attempt on Jackson failed when two pistols misfired due to dampness!

The bank, refusing to die, was re-chartered as a Pennsylvania corporation, but was later liquidated in a cotton trading debacle. Biddle was indicted but not convicted of defrauding shareholders, who lost their entire investment.

## MARTIN VAN BUREN AT THE HELM

Martin Van Buren had an illustrious career in public service: as State Senator, Attorney General, U.S. Senator, and Governor of New York.

From the start of it, he had effectively fought against banker privilege, personally blocking dozens of proposals to form new banks in New York State. He proposed legislation limiting bankers' power, which would years later form the basis for New York's bank Safety Fund system, and later her "Free Banking" law (see Chapter 16).

He also started the movement to do away with debtors prisons, and proposed a constitutional amendment for the more direct election of the President. Only three portraits decorate the library of his Lindenwald estate - one of himself, one of Jackson, and one of Jefferson.

Unfortunately neither Van Buren nor his advisors had achieved a full concept of money. Daniel Raymond correctly urged Van Buren that any central bank must be government owned but incorrectly insisted that all currency must be 100% backed by gold and silver. He was essentially advising setting up a deposit bank on the Bank of Amsterdam model, rather than a bank of issue. But the kind of growing money supply that the country needed required a bank of issue.

Jackson and Van Buren removed the monetary power from the private bankers but did not re-establish it in the hands of the nation. Instead, Van Buren organized the Independent Treasury System, establishing 15 sub branches of the Treasury to handle government moneys in 1840. From December 1836 the government moved toward making and receiving all payments in coinage, or truly convertible bank notes, starting with subscriptions for public lands. Once the state bank notes were no longer accepted by the government, their circulation was cut back dramatically.

**This was the closest our nation has ever come to implementing a real gold/silver standard. Operating under the commodity theory of money, Van Buren, who truly cared for the Republic, helped bring on the worst depression the Nation had ever seen, starting in 1837.** It was reportedly even worse than that caused by the 2nd Bank of the U.S. in 1819. Bad as the state bank notes were, they had still been functioning as money!

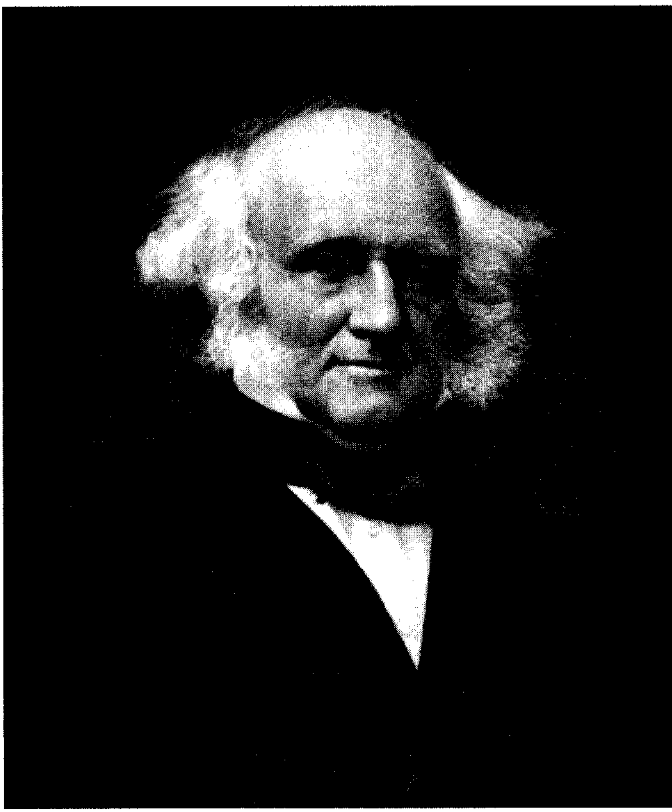
Those who proclaim that no gold and silver money system has ever failed should consider that whether you are a laborer, farmer, or industrialist, the money system's success or failure is not measured by the value of a piece of metal. When your job, your farm, or factory has disappeared in a monetarily created depression, the system has failed!

This experience argues for the necessity of a monetary branch in government, like that of an executive, legislative and judicial branch. Once the legal nature of money is understood, it becomes clear that this power should reside in government, not private hands.

Van Buren retired to Lindenwald, his estate in Kinderhook. It is possible he visited this house where the author is writing, a 150-year old country schoolhouse (there may be something in the air up here). He put a lot of energy into farming, as part of his core belief:

"It can only be when the agriculturists abandon the implements and the field of their labor and become, with those who now assist them, shopkeepers, manufacturers, carriers, and traders, that the Republic will be brought in danger of the influences of the MONEY POWER."

Van Buren had devoted great effort to rescuing the nation from the "MONEY POWER," and he believed the goal had been accomplished:



*15i.* **Martin Van Buren, 8th President of the U.S., grew up, lived, and is buried just a few miles from our offices. His book *The Origin of Political Parties in the U.S.*, provides some of the deepest insights into the forces at work in the founding of our country. Van Buren successfully fought bank privilege throughout his career.**

"The practice of funding the public debt...has long been discontinued...A national Bank has become a completely 'obsolete idea' among us, as thoroughly condemned in public opinion as a national debt.[67]

But the problem was far from solved; it was just beginning and won't be solved until an accurate concept of the nature of money as an institution of the law is properly formulated into the supreme law of the land - the Constitution.

Van Buren had alleviated the problems caused by his own commodity view of money by again issuing paper money in 1837. It had been 22 years since the U.S. had issued its own notes. Congress authorized the issue of $10 million of them. These notes were not as convenient as the earlier ones of 1815: they were denominated over $50, paid 0.1% to 5% interest, were transferable only by assignment, and were to be redeemed in a year.

Still, they functioned excellently, with 60% of government revenue being collected in them in 1837-38. Congress authorized their re-issuance every year up to 1843, when there were still only $10 million outstanding. In 1850 an administration tried to issue more, and under growing influence of the bankers, Congress withdrew them. In the brittle monetary atmosphere that followed, a financial crisis erupted when an Ohio insurance company went bankrupt after a ship sank with $1 million of their gold aboard. Congress had to re-authorize the notes in 1857.

So from the Constitutional Convention up to the Civil War period, just prior to the introduction of the Greenbacks, the U.S. Government handled the money power well, issuing notes in an orderly, responsible manner. But as we shall see, the performance of the private banks was not so honorable.

In summary, although there were earlier attempts to privatize the money power, this factor came to the fore at the Constitutional Convention where Morris, Hamilton and Witherspoon promoted private control of the money system. Because the delegates didn't fully understand the nature of money, they failed to clearly place the money power in government, leaving it imperfectly defined.

Thus the private 1st Bank of the United States took over the monetary power, and tried to ensnare the nation in foreign wars. Jefferson's maturing concept of money confirmed him in his fight against this foreign dominated bank, helping him to block its re-chartering.

A centralized monetary power was still needed, but the bankers' political strength kept it out of government hands and eventually the private 2nd Bank of the U.S. was formed. Using the financial privileges granted to it by the Congress, it purchased the support of the press and of additional members of the legislative branch. Jackson and Van Buren fought this scandal ridden institution, blocking its re-charter. But their subsequent attempt to place the country onto a coinage standard led to disastrous deflationary results. As after the liquidation of the 1st Bank of the U.S., the nation once again successfully issued government notes for money in an orderly and responsible manner.

## *Notes to Chapter 15*

[1] Clarence L. Ver Steeg, *Robert Morris Revolutionary Financier*, (Univ. of Pennsylvania Press, 1954), p. 194.

[2] John Jay Knox, *History of Banking in the United States*, (New York: Rhodes, Bradford & Youngman, 1903). pp. 27, 31.

[3] Knox, cited above, p. 27.

[4] Lawrence Lewis Jr., *The Bank of North America*, (Philadelphia: Lippincott, 1882).

[5] Lewis, cited above.

[6] Ver Steeg, cited above, pp. 85, 86.

[7] John Thom Holdsworth, *The First and Second Banks of the United States*, (Washington, DC: National Monetary Commission, 1910), p. 26.

[8] Ver Steeg, cited above, pp. 110, 124.

[9] Knox, cited above, p. 28.

[10] Martin Van Buren, *Inquiry into the Origin of Political Parties in the U.S.*, (New York: Hurd & Houghton, 1867), pp. 11, 23, 29, 32.

[11] Sarah Breckenridge, *Legal Tender*, (Univ. of Chicago Press, 1903), Ch. 8.

[12] John Locke, *Essay on Money and Bullion*, (London: B. Lintot, 1718), pp. 1-15.

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[15] [John Witherspoon], *Essay on Money*, 1786.

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[21] Benjamin F. Butler's speech, House of Representatives, Congressional Globe, 40th Congr,3rd session, 303ff.

[22] *Federalist Papers*, (Univ. of Chicago Press, Great Books Collection, Encyl. Britannica, 1952), vol.43, p. 56.

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[35] Thomas Paine, *Writings of Thomas Paine*, vol 3, edited by M. D. Conway, (New York: AMS Press, 1967), vol. 3, p. 383.

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[40] Thomas Jefferson, cited above.

[41] Conant, cited above, pp. 340-41. Conant says 1800 out of 2500 shares, but he has dropped a zero. Its 18,000 of 25,000.

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# CHAPTER 16

# U.S. GOVERNMENT ISSUED MONEY
## COMPARED TO
# PRIVATELY ISSUED MONEY

"The history of banking…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…."
John Jay Knox, Controller of the Currency

"The Banking system is the principal cause of social evil
in the United States."
William Gouge, 1833

Our review of Greek, Roman, Byzantine, Venetian, Dutch, and English money, until the formation of the Bank of England, showed that monetary control was generally either in government or religious hands and was inseparable from ultimate sovereignty in the society. Yet in America today, the idea that government should control the issuance of money is guaranteed to arouse ridicule among most economists. The government's monetary role is under attack by diverse elements from the paid apologists for privately controlled central banks, to free banking advocates, to gold standard enthusiasts.

But are their views well grounded in historical or modern experience, or merely a bias they picked up in economics classes or from re-reading Ayn Rand novels once too often? Have private money systems really achieved better results than government ones? Rather than trying to deduce the answer theoretically, from free market axioms that are assumed to be correct or accurate and sufficient, let's simply look and compare the results of the two types of systems in the United States. First, we'll briefly recap the government controlled systems.

## U.S. EXPERIENCE WITH GOVERNMENT ISSUED MONEY

Colonial monetary "experiments" before the Constitution took place under conditions of limited sovereignty and life or death warfare. Even so, we saw many examples of the colonial governments' paper money working well (Chapter 14), facilitating the creation of real infrastructure.

We found that the colonies never issued more currency than was authorized by their legislatures. We read expert eyewitness Benjamin Franklin's accounts of the benefits of those money systems. Yet some refuse to consider those facts and instead attack the eyewitnesses.

We learned on examining the performance of the government issued Continental Currency that $200 million was authorized, and $200 million was issued. We saw that, despite its destruction, largely at the hands of British counterfeiting, the Continentals enabled us to fight and win the Revolution. Thomas Paine, America's greatest son, informs us that the continentals were a "cornerstone" of gaining our independence from the decadent east.

We have read how the U.S. experience affected the development of Thomas Jefferson's views on money, starting from a crude belief in metallic money and progressing to a system of government controlled nomisma.

We saw that the issuance of U.S. paper money in the form of treasury notes, from 1812 to 1817, after the private 1st Bank of the U.S. was closed, was done responsibly and effectively and well within the legislatively authorized limits. We saw it again from 1837 to 1857 after the private 2nd Bank of the U.S. was brought down. Thus from the beginning until just before the Civil War Greenbacks, the monetary record of the U.S. is excellent.

The one major mistake was Van Buren's severe depression, which arose from his misguided commodity view of money and his attempt to institute a true metallic standard of gold and silver from 1836. Fortunately, that was the first and last time that happened in the U.S.

# THE EXPERIENCE WITH PRIVATE MONEY IN THE U.S.

Privately issued money was shunned and suppressed in the colonial period by the colonial governments, by individuals and even by England. The Articles of Confederation placed the money power in the hands of government. It was only under the Constitution that bankers assumed a degree of centralized control over the nation's money through the privately owned 1st Bank of the U.S. in 1791.

## THE FEDERALLY CHARTERED, BUT PRIVATE 1ST BANK OF THE U.S.

By most accounts, the 1st Bank of the U.S. operated carefully, creating about three to four bank credit dollars (loans and discounts) for each dollar of metal reserves held by the Bank. In addition, it issued circulating notes about equal to the gold and silver it held. Thus it magnified its coinage position almost five fold. This is considered to be conservative banking, especially since the Bank held substantial amounts of U.S. Government securities.[1] Considering the great need for money in the young nation this was no doubt very welcome. Yet there were major problems associated with this bank.

We saw that of the Bank's \$10,000,000 "capital", less than \$700,000 was actually paid-in with gold and silver. The rest was purchased with loans of paper credits, even from the Bank itself! Later through its banking operations, it did gather about \$5,000,000 in "specie".

We have noted the attempts of the Bank's supporters to foment warfare, which would have entrenched the bank with an unpayable national debt to it. The blatant Federalist search for enemies, and the ease with which Paine and Jefferson solved the French war "problem" by the Louisiana Purchase, argues for the dishonesty of the Federalist's moves as seen in Chapter 15.

The Bank also alienated control over the nation's money system, placing it in the hands of its shareholders to the east. On liquidation it was found that three fourths of the Bank's shares were foreign owned, mainly by the Dutch and English.[2]

Jefferson wrote to Gallatin about the danger posed by this Bank:

"I deem no government safe which is under the vassalage of any self constituted authorities…except that of the nation, or its regular functionaries."[3]

It was in the aftermath of closing the Bank in 1811, in the war of 1812, that the U.S. issued its first notes that served as paper money.

THE STATE CHARTERED PRIVATE BANKS

It should be noted that several states: Georgia, Tennessee, Kentucky, and South Carolina, each had their own state chartered bank that was owned by the state. However, the overwhelming majority of state chartered banks were privately owned and controlled.

The private state bank response to the removal of the 1st Bank of the U.S. and the war of 1812 was not honorable. In 1811 there were 88 private state chartered banks claiming "assets" of $42.6 million. By 1814 all of these banks suspended the convertibility of their notes into coinage. But people continued to accept the notes because there was little alternative money, and the notes were accepted for taxes.

"No wonder that under such chaotic circumstances banking practices became more and more irresponsible and even fraudulent," wrote Nussbaum.[4]

The state bankers then used the suspension period to expand dramatically from 88 to 208 banks by 1815, then claiming assets of $82.3 million. They used the suspension as an opportunity to make super profits:

"Indeed the current chaos enabled them to earn extraordinary profits, for they were able to issue notes and lend money on a much greater scale than would have been possible under a sound banking system," wrote Studenski and Kroos.[5]

This was possible mainly because the government still accepted these private state banknotes in payments. No doubt "laissez-faire" advocates can interpret this to blame our government, though its purpose was to promote stability, and the bankers purpose was to unjustly enrich themselves at the expense of their neighbors.

As already noted, the government ended up holding accounts in 94 banks. It was necessary to have four accounts in each bank: one for the local Bank's notes, one for other bank's notes that were not acceptable locally, and two others for different U.S. Treasury notes.[6]

The U.S. government is estimated to have lost about $6 million in these spurious banknotes; a huge amount for the time.[7] **So in this period, the private money issuers made great profits by printing paper money; with much of the bill falling on the nation.** Will anyone pretend that the private bankers' actions were more to be trusted or preferred than the government's?

To avoid this chaos of the state banks, Madison signed in the 2nd privately owned Bank of the U.S.. We discussed in Chapter 15 how this private bank engaged in a criminal expansion and contraction, all in three years time, thrusting the nation first into a speculative frenzy and then into a deflationary depression. Banker apologists typically gloss over this debacle with nearly the identical phrase: "The Bank was poorly run in its early years." (Knox, Laughlin, Conant)

REACTION TO THE PRIVATE 2ND BANK OF THE U.S.

The public's reaction to this bank was not so forgiving. In the ensuing uproar, the state of Georgia sued the bank for removing coinage from circulation and Georgia's Governor, John Clark, demanded that the Bank provide "a circulating medium sufficient to supply the real wants of our citizens."[8]

In North Carolina, Archibald Murphy, Chairman of a state legislative committee, wrote that the Bank, by its action to ruin state banks and individuals, constituted "the greatest crime in years."[9] The actions of this Bank worked to undermine the national unity of the young nation and planted the seeds of civil war.

In Illinois, in August 1818, the Constitution prohibited any but state chartered banks within the state. Several states imposed taxes on the branches of the 2nd Bank of the U.S. (Georgia, Kentucky, Maryland, Ohio, North Carolina, Tennessee, and Pennsylvania).

In Ohio on September 17, 1820, a $100,000 tax was collected by an agent, who:

"leaped over the counter, seized upon the vaults, and forcibly collected the tax. The act aroused intense excitement throughout the Union," wrote Caterall.[10]

In Pennsylvania, Condy Raguet's legislative investigating commission harshly criticized the Bank:

"A distress unexampled in our country since the period of its independence, prevails throughout the Commonwealth ...The incorporation of the monied interest already sufficiently powerful of itself, further created vicious aristocracies, hostile to the spirit of free government, and subversive of the rights and liberties of the people."[11]

Is there any evidence or reason to believe that any American government controlled money system could have performed so badly?

HOW FREE BANKING OPERATED

**We identify the period in America before 1836 as the free banking period.** The records of banks prior to 1832 are very poor or non-existent. In July of that year Congress directed the Secretary of the Treasury to present an annual report on State Banking. Fortunately there are several dependable commentaries on banking practices.

The primary game of banking by many bankers of this period was not just to charge interest on the bank note money they printed, but it was to actually spend the bank-notes into circulation, appropriating property from the accumulated wealth of the community. The officers and directors of the banks and their friends, relatives and business associates had first claim to the paper money created by their banks and were the main borrowers. These notes were accepted by the public because there was very little other money in circulation, and mainly because they were accepted in payments to the government.

Historian Charles J. Bullock made these observations:

"From 1800 to 1860 bank notes were often at a discount of 50 to 68%."

He noted that:

"Banks were located in inaccessible places, on some bottomless prairie road or in the depths of forests where it would prove as difficult as possible to find the offices at which the notes were payable....

"A messenger sent to South Royalston to demand payment of $10,000 in notes issued by the local bank was arrested on some frivolous charge...to avoid redeeming the notes."[12]

Financial historian William G. Sumner informs us that :

"Stock of coinage in banks was insignificant and was moved from bank to bank to meet the inspector's visits." [13]

However when Sumner really gets harsh, he does it by
quoting Hezekia Niles:

"The imagination of an honest man can hardly conceive the stupendous villainies that have been contrived by the banks..."

and by quoting William Gouge:

**"The banking system is the principal cause of social evil in the**

**United States."**

GOUGE'S DESCRIPTION OF EARLY BANKING

William M. Gouge gave a thorough description of the private banking abuses in his 1833 book *A Short History of Paper Money and Banking.*[14] Gouge had been editor and publisher of *The Journal of Banking* and was a contributor to various business magazines such as *Hunt's Merchants Magazine* and *The Banker's Magazine and Statistical Register*. What he wrote about banking was taken seriously and his book remains the definitive work on early U.S. banking.

Despite its title, Gouge's book was quite lengthy. He gave many concrete examples along with estimated figures on the operations of banking of his day. Of equal importance to us today are the fraudulent principles that he concluded were at work in banking, especially the immoral effects of banking on the development of humanity.

Its important to read some Gouge to understand that the harm being done by banking upon society is not some new discovery or modern development. This sociopathic aspect of banking has long been recognized and commented upon. The following chapter notations in {} refer to Gouge's chapters.

**How banks got their "money:"**

"When people hear of Banks having capitals of $500,000 or of $1,000,000, they suppose that these institutions had…real money to this amount…but this is not true. The Banks create their own capitals in the same manner that they create the money they lend to people. The capital of banks consists of…the promissory notes of individuals. The bank obtained these promissory notes from its stockholders, by giving them the promissory notes of the Bank. Thus Bank capitals are formed by exchanging one kind of promises to pay for another kind of promises to pay.

...the whole business, is nothing but a paper transaction between the Bank and its stockholders.

...The most prestigious Banks have formed their capitals in this way." {Ch. 8}

**On speculation in bank stock:**

Gouge pointed out that a large part of the banking game was to manipulate bank shares. The opening of the New York Stock Exchange in March 1817 made this easier. He described some tactics that original stockholders used in distributing their stock to the public:

"When a charter is granted, the speculators make a big show of their desire to possess the stock, creating the idea that it is very valuable. In New York, they subscribe to a much greater amount of shares than are being offered...Oversized roughnecks...are hired by the speculators to get the shares for them. They struggle violently at the windows so as to give and receive personal injury.

"These doings have their effect on simple-minded people; and, from the hope of large profits, they prefer bank stock to land and houses...

"The losses suffered by simple minded people, through such doings, is enormous." {Ch. 8}

**Why false monetary ideas dominated legislatures:**

"The prevalence of false views of the money corporation system, in legislative bodies, is mainly due to of the influence of those members who have personal or political interest in establishing and supporting banks..."

"The large extent of bank influence is not easily seen. We seldom see an identified Bank or a money corporation candidate running for office; but when questions arise which affect them, the Banks have agents at work, whose operations are the more effective because they are unseen..."

"They have great power over the press. Few journalists can venture to expose the money corporation system, in such plain terms as every body would understand, without risking losing their jobs. Many newspaper editors...far from being independent...are in debt to the Banks..."

"Despite our boasted liberty in the United States, a free and full exposition of the principal cause of our social evils would not be tolerated." {Ch. 19}

**Banks draw on the community's wealth:**

"If the superior credit the Banks enjoy, grew out of the natural order of things, it would not be a subject of complaint. But the Banks owe their credit to their charters - to special acts of legislation in their favor, and to their notes being made receivable in payment of dues to Government."

"As it is public credit that supports the Banks, and not the Banks that support public credit - as the deposits of the Banks are the property of the community generally, and as the profits derived from circulation come from the community generally, they ought to go to the community generally, and be used to lighten the burdens of taxation." {Ch. 20}

"In addition consider what some have gained and others have lost, by the breaking of over one hundred and sixty Banks between the years 1811 and 1830."

**The long range effects of such banking:**

"If you deprive a man of his property, you deprive him of the means of properly educating his children, and thus harm the moral and intellectual character of his descendants for several generations...the wealth of the few goes on increasing in the ratio of compound interest, while the...(banking) operations to which they owe their wealth, keep the rest of the community in poverty..."

"...unequal political and commercial institutions invert the operation of the natural and just causes of wealth and poverty..."

"...wealth and poverty are the result of a country's institutions. Political privileges are the common cause: but commercial privileges have the same effect: and when the foundation of this artificial inequality of fortune is once laid, whether by feudal institutions or money corporations, all the subsequent operations of society tend to increase this concentration of wealth." {Ch.21}

**The effects on moral character:**

"Without clearly distinguishing the causes, men have come to see clearly the wealth passing continually out of the hands of those whose labor produced it, or whose economy saved it, into the hands of those who neither work nor save. They do not clearly see how the transfer takes place, but they are certain of the fact. In the general scramble they think themselves entitled to some portion of the spoil, and if they cannot obtain it by fair means, they take it by foul." {Ch.22}

Although Gouge's concept of money's nature was not advanced - he remained an advocate of gold and silver - he saw through the fraud and immorality of banking in America and his writings would help bring much needed reforms in banking.

BOSTON'S "SUFFOLK SYSTEM"

In 1825 a group of larger Boston banks tried to limit the excessive issue of notes by country banks. They formed the "Suffolk System" which sent notes issued by remote country banks back for immediate collection unless the country bank kept a real deposit with the Suffolk group.[15]

NEW YORK'S SAFETY FUND SYSTEM

Some state governments moved legislatively to improve local banking practices. In 1829 New York organized a Safety Fund System in which each bank in the state was required to pay ½% of its capital to the New York State Treasury each year, until 3% total had been paid.[16] This Safety Fund was then administered by the State and used to redeem the bank notes issued by failed banks. It also limited notes issued by banks to two times their capital, and limited their loans to 2 ½ times their capital.[17] This worked well, but New York was the exception; most states had no such systems.

## THE STATE "FREE BANKING" LAWS FROM 1836

Gouge's expose` was an important factor in obtaining reform legislation to regulate banking. In 1836 the move for regulating the banks was unstoppable, and, beginning with New York, better banking regulation laws began to be passed. New York's law was called a "free banking" law, but this was misnamed, since its effect was just the opposite - a much greater government regulation of banking. The act was called "free banking" only because the requirement for a special legislative act establishing each new bank was removed.

In New York, at first the inferior bonds of the western and southern states were allowed as bank capital. Although even this was a big improvement over the past, New York soon limited the security to NY state and federal bonds. In the years following, other states adopted similar laws.

Some of the important new requirements placed on banks were:[18]

* Bank note issues by banks were restricted to specific percentages of the bank's real capital.
* The bank's capital reserves were improved, moving toward government bonds rather than the worthless personal notes of the bank's stockholders.
* A double liability was imposed on Bank stockholders, where they were liable to be called to pay an additional twice the par value of their stock if their bank got into trouble.
* More efficient systems of bank examination and reporting to the public were adopted.

The results of private banking under these stricter state regulations were not without major problems, but were still widely recognized as far better than the mostly unregulated period before 1836.

## THE "FREE BANKING" IDEOLOGUES - A MODERN LESSON IN MISINTERPRETING MONETARY HISTORY

We now depart briefly from our chronological narrative to consider the ideas of the current "free banking" movement, which is based on a misreading of the free banking era. This political movement, in economic garb, has arisen recently from Frederich Hayek's ill considered essay, *Denationalisation of Money*.

It is important to realize that the real free banking period was pre-1836, before the various states began passing these regulations, because now comes along the modern "free banking" economists who are trying to make the historical case that "free banking" worked well in the past and therefore should be adopted today.[19]

First of all, these fellows are to be commended for their interest in monetary and banking history and their realization of the great relevance of historical example and experience to the monetary field. This attention to history, rather than isolated theory, should over time help them to reach more accurate conclusions as long as they will be true to the principles needed for good research.

Unfortunately they have made several serious methodological errors in their efforts to support their conclusion that bankers should be essentially unregulated. This is not entirely their fault; training in economics is notably lacking in guidance on historical research.

**But it also appears that some of these researchers, influenced by the polemic style of Ayn Rand, the Libertarians or the Austrian School of economics, have brought too much partisanship to their study, and may have even come to their conclusions before examining the historical evidence.** The anti-government attitude of those groups has created a prejudice in them to view all regulation as bad and to place their trust in the bankers to act honorably. Here are some of the problems with the "free banking" arguments:

**Problem # 1:** They have not carefully defined their terms. They have not accurately and uniformly defined money. Some use a primitive commodity concept of money, others not. Their definition of "free banking" is not uniform, but varies greatly from writer to writer.

**Problem # 2**: They have mis-classified the period from 1836 to 1862 as the free banking period. The correct free banking period is pre-1836, before the state regulations on banking were increased. Naturally the post - 1836 period gives better banking results, but anyone can see that it is a period of increased government regulation.

**Problem # 3**: Partly because statistics on the banks are very patchy, the free banking advocates have focused on certain measures that cannot convey a full and accurate picture of banking. For example, they try to evaluate banking performance by the percentage of depositors' money that was lost. But that treats the banks as deposit institutions, when they were in fact banks of issue, creating new money in amounts approaching 10 times their deposits.

The free bankers' work thus ignores the bank stock frauds which observers tell us was an important part of banking. In Chapter 20 we show that the stock market losses of the 1929 crash, caused by a banking created crisis, were about 40 times as much as the direct losses in bank deposits. Free bankers also ignore the harmful effects of banking activities on the rest of the community, so eloquently stated by Gouge.

**Problem # 4:** They think that they have theoretically "proven" that bankers can be trusted to act honestly, because they say in the long term it will build banker's reputations and therefore be profitable. They don't consider that often in the short term the potential for loot is so great that it will be taken without regard to honesty. They also ignore that reputation can be influenced by public relations expenditures and advertising. That is in fact the history of business immorality. Men don't always do the right thing when they are tempted by the opportunity to grab a great amount quickly.

**Problem # 5:** Starting with this apriori position, they have briefly looked through history for empirical support for their theory. But using history in that manner is not likely to yield accurate results. The lessons of history have to be viewed more dispassionately within their own context to see what picture emerges from several sources. It doesn't work to force a modern day template onto the facts, to attempt to force a "fit" with favorite theories.

Nor is it acceptable to use a modern created filter through which agreeable facts are retained and disagreeable facts are ignored. One cannot ignore the universal condemnations of the banks from qualified observers of many different persuasions.

This is not the place to go through their definitions, facts and conclusions, one by one, to point out their errors. We can and will do that if it becomes necessary; but its better for one of their own to do it. It would be commendable for Libertarians and "Austrians" to make monetary history a larger part of their work, but not in a spirit of partisanship and negligence. Particularly telling is their attempt to pass off the better results of the period of higher bank regulation by government as the free banking period. It's not that they thought they were getting away with something, but worse - their ideology has truly blinded them.

If they feel the treatment of them here is too harsh, they should consider that their ideas, if implemented, would have negative life and death consequences on substantial numbers of people. Especially those unable to protect themselves from the bad effects these policies would produce.

I'm reluctant to criticize them too strongly, because I know that the spell they are under can be shaken off. The source of so many of their errors lies in Austrian monetary propaganda, and in Hayek's *Denationalisation of Money*, which literally called the modern movement into existence. These youthful offenders probably saw themselves as rising heroically, or at least dutifully, to his call.

**Hayek's 1976 essay failed in one of its primary purposes: its attempt to throw a monkey wrench into the plans for the new Euro currency (see his pages 19-20).** But it found more receptive minds among American Libertarians, who though they regard themselves as independent thinkers, generally closely follow a party line.

Readers drawn to Hayek, due to the exalted status given him by well-funded incestuous praise from other Austrian School members, or the awarding of a "Nobel" Prize in Economics,[A] will be disappointed to find that this piece is little more than a diatribe of endless, unsubstantiated generalizations, mostly against government (over 100 attacks in its scant 130 pages). While he should have been held to a much higher standard of scholarship, Hayek saw his function more as a propagandist:

"I ought, perhaps also to add, what I have often had occasion to explain but may never have stated in writing, that ***I strongly feel that the chief task*** of the economic theorist or political philosopher should be to operate on public opinion to make politically possible what today may be politically impossible..."[20] (emphasis added).

The American Monetary Institute plans to publish an in depth

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A) In fact the Nobel Prize in Economics is not part of Alfred Nobel's legacy, but is awarded by the Swedish Riiksbank, and demonstrates the propagandistic and deceptive practices of the economics Establishment. Nobel's heirs have been trying to force the Riiksbank to stop pretending it gives a "Nobel Prize" in economics: "The economics prize runs counter to the idealism in Alfred's declaration that the prizes should be awarded each year to those 'who have conferred the greatest benefit on mankind....The vast majority of economic prizes have gone to people who reflect the dominating western view of the world. It's doubtful whether this really is of benefit to all mankind,' says Peter Nobel." Financial Times, 11/24/01.

refutation of Hayek's denationalisation "notion" - it can't really be called a thesis.

## THE REIGNING ERROR ON GOVERNMENT MONEY

Remaining outside our chronological presentation for the moment, we discuss the reigning error on inflation and governmentally controlled money. The "error" (for some, such as Frederich Hayek, it is more a matter of propaganda) is the assumption that governmentally controlled money systems - that is by definition, money systems based on the fiat of the law - are less just, more destructive and more dangerously inflationary than are money systems privately controlled by bankers. The latter are often said to be controlled by no one, as the gold standard systems have been falsely described.

For all the attention and belief invested in this anti-governmental, actually anti-social viewpoint, surprisingly little logical argumentation or serious historical evidence has been put forward to defend it. Logically, it has usually depended on the assertion of two falsehoods: first the assumption that the poorly run money systems of the past were under government control, even when they were privately controlled; second, the anthropomorphizing of government - pretending that government has the motivations of greed, and lust for power and gain, that are characteristics only of living, individual men. We have pointed out how Hayek makes both these "mistakes" in his self-admitted propagandizing.

In short, the "inflationists" argument usually reduces to the following, as stated by the distinguished conservative journalist Henry Hazlitt, in his introduction to Andrew Dickson White's essay, *Fiat Money Inflation in France*:

"(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 between 1716 and 1720; of the history of our own Continental currency between 1775 and 1780; 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?"[21]

Thus those arguing against government exercising its proper control over the nation's money system actually think they have history on their side, having been misled into this view by some pretty clever people. No doubt Hazlitt believed that the narratives he relied on, of those past inflations, were accurate and objective reports. But they were not. In fact, a literature continues to be built up about those events that generally relies on the uncritical acceptance of earlier accounts that range from misleading to false.

In Chapter 14 we dispelled this reigning error on colonial government paper money issues, which were indispensable in building colonial infrastructure and achieving progress. We examined how the Continental Currency enabled the United States of America to be founded, and how it was brought down largely by British counterfeiting.

In Chapter 17 we'll see that the real history of the Greenbacks did not conform to the picture painted for Hazlitt, by the Austrian economists. We will observe how the Confederate Currency fell, and we agree that a fiat currency does depend upon a continuation of the government that issues it. In Chapter 21 we examine the German hyperinflation, and again the reader will see that it was not what the bankers' apologists claim. Suffice it to say here that it occurred under a privately owned and controlled central bank. That leaves only their "argument" of the French Revolutionary money - the assignats.

## WHITE'S PURPOSE: TO ATTACK THE GREENBACKS

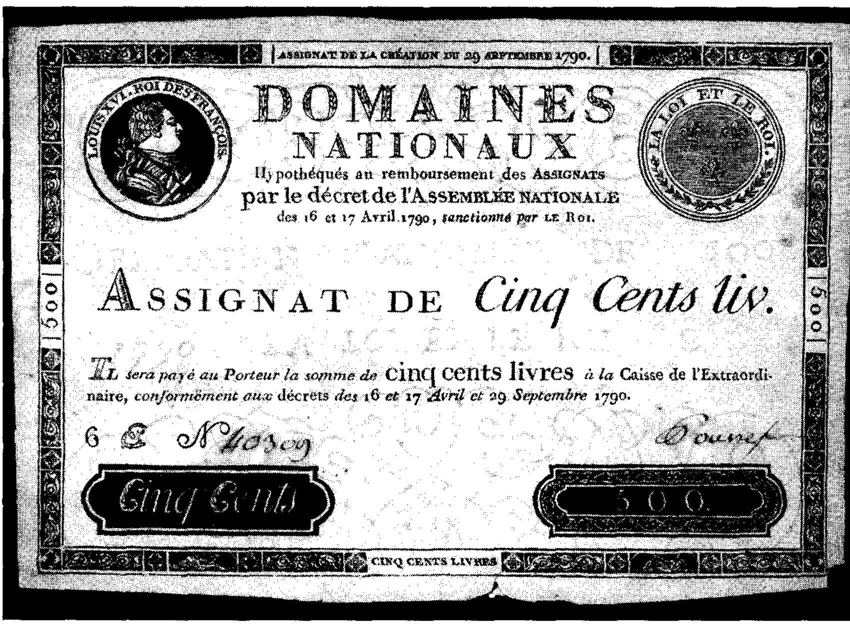
France issued the assignats starting in 1789, under conditions of a society and economy so ruined by aristocratic arrogance and extravagance that the people had risen in revolution. One of the most important aspects of the assignats is how their story has been used (or misused) in the modern battle for control over society's monetary power. This propaganda effort began in earnest almost a century after they were issued, in the fight over the American Greenbacks.

Perhaps the most clever attack of all on the Greenbacks was Andrew Dickson White's *Fiat Money Inflation in France*, written in 1876. White (1832-1918), whose inherited fortune arose from banking, eloquently used several rhetorical methods to undermine the Greenbacks. But Hazlitt's introduction presents White's essay as objective history, rather than with a political motive. Not mentioned is that White's purpose was to attack the Greenbacks, which at that time a majority of voters wanted to make a permanent feature of our money system.

Since a direct examination of the Greenbacks and their results would defeat his purpose, instead White argued from analogy, asserting that what was true for France must also be true for the United States: the failure of paper money, under the chaotic conditions of the French revolution, automatically condemns government paper money everywhere. The argument does begin to look weak, even silly, when stated in that way.

Within the year (1877), Stephen Dillaye had demolished White's effort to the point of embarrassment:

"The effort of his pamphlet is to overthrow our paper currency; to destroy confidence in our stability as a government; to question our honor as a nation, and our honesty as a people, by producing the history of French paper money, and showing by its failure and worthlessness, an example and illustration to convince us that because the French revolutionists failed in establishing a paper currency worthy of confidence, we must fail; that as they repudiated the obligations they created, the Government of the United States must repudiate the obligations it has created or may hereafter create. Mr. White's argument amounts to this or it amounts to nothing."[22]




*16a.* **Andrew Dickson White, whose inherited fortune came from banking, argued that the failure of the French Revolution's Assignats proved that governments couldn't be trusted to issue paper money. He didn't mention that far more Assignats were counterfeited in London than were printed by the French. Same tactic she used against the Continental Currency.**

**Such monetary aggression seems to be endemic to England.**

Dillaye provided details on how English counterfeiting was a major factor in the Assignat's decline, as it had been against our own Continental Currency. We will quote him at length, since the reader will have great difficulty finding information on this elsewhere:

"It is true that adventurers in Belgium and priestly knaves in Switzerland commenced the business of forging the Assignats as early as October 1792...It was found that Belgium was too open and too much in sympathy with revolutionary dogmas; and that Switzerland was too confined in its resources and communication for the...vast designs of the nobility and clergy. It is true that the business was kept up and increased there, but the great establishments for the systematized fraud found more scope and greater opportunities for uninterrupted work in London. ...England lent its aid, while its cabinet became the concealed agent for the propagation of the felony and the circulation of the nefarious outrage."

Continuing: "Seventeen manufacturing establishments were in full operation in London, with a force of four hundred men devoted to the production of false and forged Assignats. The success and the extent of the labor may be judged by the quantity and the value they represented. In the month of May 1795, it was found that there was in circulation from 12 billion to 15 billion francs of forged Assignats...The Assignats in circulation at this time...issued by the Revolutionary government were 7.86 billion francs, and not, as Mr. White has stated 45 billion francs...The value of the lands dedicated...as the basis for their redemption...was 15 billion francs..."[23]

As part of his proof, Dillaye cites legal proceedings in England where court disputes between those involved in counterfeiting brought the matter into the public record.

White's essay pretended that certain natural laws operated against government paper currency. Dillaye pointed out that:

"The Natural laws of finance, as Mr. White understands them, would have...strangled our [American] revolution in 1775, and kept us slaves to...kingly impudence," and "not a dollar has ever been lost by the paper credits of the United States since the adoption of the Constitution; but the losses, the ruin, the bankruptcies and the fatal failures which have resulted from banks making gold the basis are written in the history of every crisis for over three quarters of a century, and aggregate very many times the amount of the national debt...but who will attempt to estimate the amount of human misery and woe which this system of fraudulent specie basis has entailed on the American people?"[24]

While White's essay continued to be reprinted by conservatives, into the 20th century (F.E.E. in 1959, and the Cato Institute in the 1980s), Dillaye's more accurate and more honest rebuttal has been ignored. One future project of the American Monetary Institute, for which a grant is sought, is to publish a reprint and modern analysis of Dillaye's work.

Now - back to our chronology.

THE JUDGMENT OF THE PEOPLE

It is not only expert testimony that indicts private banking in the U.S., but the people as well. John Jay Knox, a Controller of the Currency and generally friendly to banker interests, wrote in his 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..."

That, combined with the very successful U.S. government issuing of the Greenbacks during the Civil War (which we examine in the next chapter) convinced the American public that the control of money belonged in government hands:

"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," Knox wrote.[25]

**Indeed, through the present day, the U.S. government has maintained a superior record of monetary activity, both in an absolute sense and in relation to the private issue of money, with only one primary failing - that is that the issuance of money has been allowed to remain in private hands for most of our history.**

In the coming chapters the reader will see that there is a continuation of this pattern into the modern period; of generally good monetary management by the United States, and generally nefarious business dealings by the bankers. Chapter 17 will describe how our government issued the Civil War Greenbacks. Chapter 18 describes the worldwide deflations of the 19th century, which we have characterized as crimes. Chapters 19 and 20 discuss how the bankers formally institutionalized their power in the Federal Reserve System, and what that system quickly did to our economy, but we are getting ahead of our story.

We now examine the exciting events of the mid-1800s, which continue to demonstrate the importance of the choice between private control over our money system and societal safeguards through governmentally created money. The activity and battles that arise out of this question have made it historically the central question of American politics, and we must never lose sight of that fact.

### *Notes to Chapter 16*

[1] Harry E. Miller, *Banking Theories in the United States Before 1860*, (Harvard Univ. Press, 1927, repr., New York: A.M. Kelley, 1972), p. 174. See also John Thom Holdsworth, *The First and Second Banks of the United States*, (Washington, DC: Natl. Monetary Commission, 1910), pp. 112, 116-17.

[2] Charles A. Conant, *A History of Modern Banks of Issue*, (New York: Putnam, 1909), p. 340.

[3] Thomas Jefferson, *Letters and Addresses*, edit. William Parker, (New York: 1905), December 13, 1803 letter to Albert Gallatin.

[4] Arthur Nussbaum, *The History of the Dollar*, (Columbia Univ. Press, 1957), p. 65.

[5] P. Studenski & H. Kroos, *Financial History of the U.S.*, (New York: McGraw Hill, 1952), p. 83.

[6] Studenski & Kroos, cited above, p. 80.

[7] Davis Rich Dewey, *Financial History of the U.S.*, (New York: Longman's Green, 1903), p. 145.

[8] Murray Rothbard, *The Panic of 1819*, microfilm *ZT239, main NY Research Library.

[9] Rothbard, cited above.

[10] Ralph Caterall, *2nd Bank of the U.S.*, (Univ. of Chicago Press, 1902), p. 90.

[11] Condy Raguet, *A Treatise on Currency and Banking*, (1840, repr., New York: A.M. Kelley, 1969), Appendix, p. 293.

[12] Charles J. Bullock, *The Monetary History of the U.S.*, (New York: Macmillan, 1900), pp. 84-5.

[13] William G. Sumner, *History of American Currency*, (New York: Holt, 1874), pp. 59, 107.

[14] William M. Gouge, *A Short History of Paper Money and Banking*, (Philadelphia, T. Ustik, 1833).

[15] Studenski & Kroos, cited above, pp. 88-9.

[16] Dewey, cited above, p. 155.

[17] Studenski and Kroos, cited above, pp. 86-100.

[18] Studenski and Kroos, cited above, pp. 115-125.

[19] For the free banking school see: Robert G. King, *On the Economics of Private Money*, Journal of Monetary Economics 12, 1983. George Selgin, *The Theory of Free Banking*, Cato Institute, Rowman and Littlefield, 1988. Lawrence H. White, *Free Banking in Britain*, NYU, 1989. Richard Salsman, *Breaking the Banks*, AIER, 1990. Kevin Dowd, *The Experience of Free Banking*, Routledge, Lord, 1992.

[20] F. A. Hayek, *Denationalisation of Money, the Argument Refined*, (London: Institute of Economic Affairs, 1978), p 17.

[21] Andrew Dickson White, *Fiat Money Inflation in France,* (Irvington on Hudson, New York: Foundation for Econ. Education, 1959), pp. 20-21.

[22] Stephen D. Dillaye, *Assignats and Mandats, A True History, Including an Examination of Dr. Andrew Dickson White's "Paper Money In France*, (Philadelphia: Henry Carey Baird & Co., 1877), p. 8.

[23] Dillaye, cited above, pp. 32-33.

[24] Dillaye, cited above, pp. 48-49.

[25] John Jay Knox, *History of Banking in the United States*, (New York: Rhodes, Bradford & Youngman, 1903), p. 11.

# CHAPTER 17

# THE GREENBACKS: REAL AMERICAN MONEY

"The best currency that ever a Nation had."
S. G. Fisher

Thanks to over a century of relentless propaganda, the image of the Greenbacks comes down to us as worthless paper money. But upon more careful examination, on balance they were probably the best money system America has ever had and they served our nation well during its worst crisis - the Civil War. Demonstrating how far monetary history has been distorted, readers may be surprised to learn that every Greenback printed was ultimately as valuable as its gold equivalent, and became redeemable for gold coinage at full value. Today the Greenback supporters are erroneously presented as merely being pro-inflation or against sound money. What they really wanted was a more honest money system, controlled by government, instead of banks.

REAL GROWTH IN THE U.S.

The decade leading up to the Civil War was one of tremendous real growth:[1]

| | 1850 | 1860 |
|---|---|---|
| U.S. population: | 23 million | 31 million |
| production of: | | |
| corn: | 592 million bushels | 839 million bushels |
| wheat: | 100 " " | 173 " " |
| cotton: | 2.5 " bales | 5.4 " bales |
| rail track in place: | 8,500 miles | 30,000 miles |

In Chicago, 4,000 tractors a year were being manufactured by McCormick alone, and there were another 100 tractor companies. There was enormous activity in the Great Lakes ports and the Mississippi River. American shipbuilding was among the world's best, building over one million new tons in 1854-55 - a tonnage not to be equaled again until 1917. The first transatlantic cable was completed in 1866.

## BANKING AND MONEY SYSTEM STILL A NIGHTMARE

This dynamic growth was held hostage to panics and speculation in the monetary and banking sphere. There was still no uniform American currency and banking was a nightmare:

"The banking business was conducted by 1,606 state banks, each going its own merry way; 7,000 different kinds of bank notes circulated, with more than half being spurious," wrote Studenski and Kroos.[2]

The banks literally let their notes fall apart:

"Our banks re-issue their bills as long as they hold together. [They] are easily torn and mutilated, causing a loss and destruction of no small amount to the public, and correspondingly great profit to the banks," wrote Wilbur and Eastman.[3] They report that counterfeit notes were also a big problem:

"There are quite a number of genuine dies (for printing money) now in the hands of counterfeiters, which were obtained at Sheriff's [bankruptcy] sales of the property of Mess. Durand & Co. (and Burton Edwards Co.) who formerly did an extensive business in bank-note engraving."

Every minor financial problem, and even accidents, could develop into runs on over-extended banks and cause financial panics. One such crisis, the panic of 1857, grew out of the failure of the Ohio Life and Trust Company, caused by the sinking of the steamship Central America with over one million dollars in gold and silver aboard. As a result, on October 13, 1857 many banks suspended redemption of their notes, causing business failures of $291 million in 1857 alone.[4]

President James Buchanan attributed the malady to our "vicious system of paper currency and bank credits, exciting the people to wild speculations and gambling in stock."

## THE WAR CRISIS

The split between North and South was a long time building and part of the reason was the banking and financial piracy by largely northeastern elements.

When Jackson and Van Buren battled the 2nd Bank of the U.S., it was southern votes that helped stop the Bank.[5] The South's view of the

North's financial theft found its strongest expression in the writings of a northerner - T. P. Kettle.[6] Randall relates that:

"Kettle [assembled] statistics to show that the south was the great wealth producing section, while the north, like an economic leech, sucked up the wealth of the south..."

The southern planters would be paid for their cotton in bills of exchange drawn on England. However "The market for foreign bills of exchange was in New York [and] The Southerner was...fully convinced of the prevalence of vicious [manipulated] speculation in cotton paper."[7]

When the Civil War broke out in April, 1861 it was just a matter of time before all the banks would suspend their payments and it would once again be left to the Government to rescue the situation, this time with the Greenbacks.

## HOW TO PAY FOR THE WAR?

In 1861 the national income was $4.3 billion per year or $140 per person. Government revenues were from customs fees and the sale of public lands. A very limited income tax was enacted for war expenses. It was a big question just how the war would be financed.

Lincoln had appointed Salmon P. Chase as Treasury Secretary but Chase was more of an anti-slavery leader than a financial expert. His early finance plan called for $381 million to fight the war, $80 million of it from taxes and $300 million from borrowing. However, there was only about $100 million of gold and silver in the country.

The borrowing was to be mostly through treasury notes. Chase proposed that the notes be interest bearing: 3.6% for small denominations, up to 7.3% for large ones. On July 17, 1861 Congress authorized borrowing of up to $250 million in the form of bonds or notes at the discretion of the Treasury Secretary. These interest bearing notes were not legal tender, but were receivable for all public dues, taxes, etc. The notes were redeemable in gold and circulated freely with banknotes and gold until December 28, 1861. On that date all the banks in the country suspended convertibility of their notes into coinage and the gold market was closed for two weeks.

## CONGRESS TAKES THE INITIATIVE

Congressman E. G. Spaulding of Buffalo, New York, who was on the powerful House Ways and Means Committee, acting without the Treasury's support, introduced a bill in Congress to create legal tender money - the Greenbacks. Spaulding clearly understood money and banking:

"Gold and silver, by long practice, have become the legal money of the world in all commercial transactions. The real intrinsic value of these metals is not as great as that fixed upon it by governments…without the government stamp gold and silver would be simple commodities, depending for their value upon the demand for use in trade and manufacture...Why then should we go into Wall Street, State Street, Chestnut Street, or any other street, begging for money? Their money is not as secure as Government money...I am unwilling that this Government should be left in the hands of any class of men, bankers or moneylenders, however respectable or patriotic they may be. The Government is much stronger than any of them...They issue only promises to pay."[8]

Secretary Chase opposed the bill and held conferences with bankers to find alternatives. They had been working on a plan that would later become the National Banking System. Spaulding was for the new banking system but realized it would take more time to put it into effect and viewed the Greenbacks as a necessary first step.

In the debates that followed, Senator Howe of Wisconsin supported Spaulding's bill and attacked those pretending that the banks had sufficient gold and silver to lend to the government:

"The Government may be able to borrow from the banks, but the Government cannot borrow coinage of the banks. If it borrows anything of them, it must borrow, not their money, but their promises to pay money. Nothing is more certain than that...We must rely mainly upon a paper circulation; and there is another thing equally certain, which is 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."[9]

The legal tender law was passed in the House by 93 to 59 on February 25, 1862. Previously, the treasury notes issued from 1812 and on were always later redeemable in metal. **But the Greenbacks were not paper promises to pay "money" later. The Greenbacks were themselves the money. Since they were not borrowed, there was no interest payment on them and they did not add to the national debt.**

GREENBACKS LIMITED TO $450 MILLION

Congress at first authorized the Treasury to issue $150 million non interest bearing Greenbacks. Fifty million dollars were to replace some Treasury notes outstanding. They were receivable for all dues and taxes to the U.S., **except import duties**, which still had to be paid in coin. The Greenbacks were payable for all claims against the U.S. **except interest on bonds** which was still payable in coin. The Greenbacks were declared a legal tender for all other debts, public and private.

On July 7, 1862 Chase reported the need for $150 million more Greenback notes, which Congress then authorized. In January, 1863 another $100 million were issued. In 1864 another $200 million of Greenbacks was authorized. On June 30th, 1864, Congress passed a law which limited the total Greenbacks to $400 million, plus another $50 million in fractional currency. This amount was never exceeded; although by that time $449,338,902 had already been issued, some being replacements for worn notes.

RESTRAINED INITIAL REACTION TO THE GREENBACKS:

Bankers did not mobilize against the Greenbacks; they had to wait until the beneficial effects of the new currency rescued their own position and brought the nation through the war. Secretary Chase expressed a religious superstition of paper money:

"Legal tender notes must be the devil made manifest in paper; for no man can foresee what mischief they may do when they are once let loose."[10]

That's reminiscent of the delegate to the Constitutional Convention who compared government bills of credit to "the mark of the beast."

Holders of Greenbacks could deposit them and receive 6% compound interest bearing bonds, redeemable after 5 years and payable after 20 years in greenbacks. Congress authorized $500 million of such bonds. **While the interest on them was to be paid in coinage, the principal on nearly all of the bonds was to be paid in Greenbacks.**

LINCOLN IS COOL TOWARD THE GREENBACKS

Lincoln said little good about the Greenbacks and they should not be viewed as his or the Republican's program. In his December 1862 annual message to Congress he said:

"The suspension of coinage payments by the banks soon after the commencement of your last session, made large issues of United States notes unavoidable...a return to [coinage] payments…at the earliest period...should ever be kept in view."

And urging the passage of the National Banking Act on January 17, 1863 Lincoln told Congress:

"...A uniform currency, in which taxes, subscriptions to loans and all other ordinary public dues as well as all private dues may be paid, is indispensable. Such a currency can be furnished by banking associations, organized under a general act of congress."

Thus Lincoln supported the banker's privilege to create money. In the same speech, he apologized for additional issues of Greenbacks:

"I think it my duty to express my sincere regret that it has been found necessary to authorize so large an additional issue of U.S. Notes when this circulation and that of the suspended banks together have become already so redundant as to increase prices."[11]

HARD MONEY HISTORIAN SUMNER WAS NONCOMMITTAL

Yale University's Sumner viewed the Greenbacks cautiously:

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*17a.* **The Greenbacks were not a promise to pay money; *they were money.* There was no interest due on them, and they did not add to any national debt. Therefore they are the finest money system we have had to date. The reverse reads: "This note is a legal tender for all debts public and private, except duties on imports and interest on the public debt and is receivable in payment of all loans made to the United States." Advances in printing made them very difficult to counterfeit.**

"The question whether it is necessary to issue legal tender notes is a question not of law, but of political economy, and political economy emphatically declares that it never can be necessary."[12]

Readers understand that our thesis is that money is mainly a question of law, not political economics. Sumner was not for total abstinence from government paper issues but worried that:

"We have not yet learned how to do it."

He acknowledged an important fact:

"The people of the U.S. have a patriotic attachment to the greenback because they think that it saved the country."

The people's attitude did not come from the media of the day, which for the most part was against the currency. Sumner noted that:

"The era of paper money on which we entered has one peculiar feature, unprecedented, so far as I have been able to learn, in the history of paper money. Our paper money is…fixed in amount…The whole story which precedes goes to show that the value of a paper currency depends on its amount...relative to the requirements of the country for the purpose of performing its exchanges."

Then Professor Sumner spoke a great truth of economics:

**"For as the currency question is of first importance and we cannot solve it or escape it by ignoring it. We have got to face it and the best way to begin is not by wrangling about speculative opinions as to untried schemes but to go back to history and try to get hold of some firmly established principles."** [13]

Perhaps it was reading Sumner's last paragraph that inspired the young Alexander Del Mar, a mining engineer, and later head of the Government's Bureau of Statistics, to embark on a lifelong study of monetary history, *which Sumner's "economists" continued to ignore.* American political economists, like those in England, would function more as a priesthood protecting the bankers' interests than as a profession that should have been educating themselves and the public on money and banking.

HISTORIAN BULLOCK WAS MILDLY POSITIVE

Like Sumner, Harvard's Charles Bullock believed in commodity money of gold and silver. Yet his comments on the Greenbacks are mildly positive. First he defended them from blame for their initial 34% drop against gold, noting that by December, 1862 the Greenbacks had been steady against commodity prices. So the premium on gold did not indicate a drop in the Greenback but a rise in gold. Bullock, unable to praise the Greenbacks directly, quoted others who did. First, Sydney George Fisher:

"It was the duty and the prerogative of a government to supply a currency to the people. [The Greenbacks were] the best currency that ever a nation had."[14]

And then Henry Carey:

"[The Greenback was] democratic in its tendencies...the changes in prices that had occurred in 1862 were such as must have taken place anyway." Carey desired "a national system of circulation based entirely on the credit of the government with the people, and not liable to interference from abroad."[15]

GREENBACKS COULDN'T BE COUNTERFEITED

Unlike the Continental Currency the Greenbacks couldn't be counterfeited:

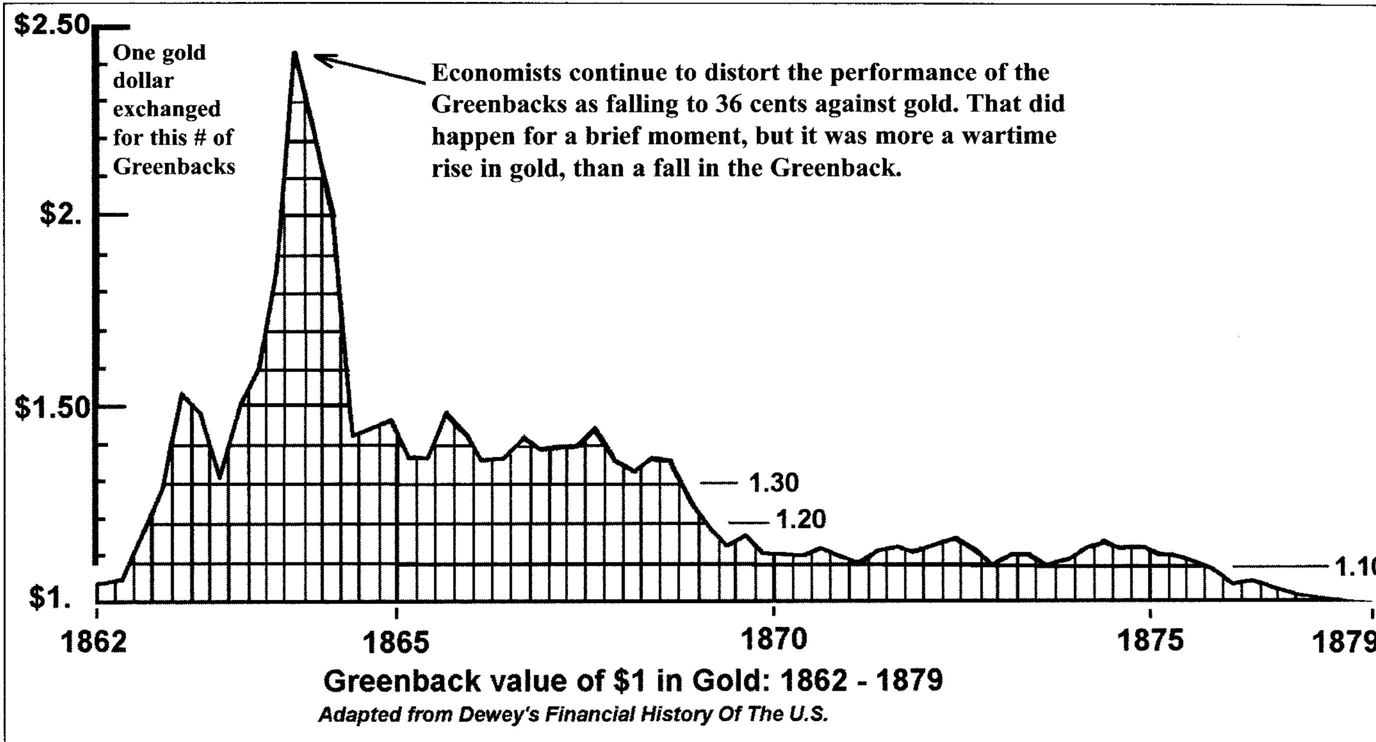
"As yet the counterfeiters have not met with much success...they are easily detected by the paper, printing, poor engraving, and by an entire failure to imitate the lathe-work, especially upon the back of the note," observed Wilber and Eastman.[16]

GOLD RISES AGAINST THE GREENBACKS

Greenback critics argue that they were inflationary and mistakenly measure the inflation against gold, starting at equal to a gold dollar in early 1862, and falling to 36 cents against a gold dollar by mid 1864. So one gold dollar exchanged for nearly $2.50 in Greenbacks. That is often the whole of their analysis and it is very misleading. Actually the Greenbacks did drop against gold; first to 58 cents at the end of 1862, then back up to 82 cents in mid 1863 and then down to a brief low of 36 cents on July 16, 1864.

From that point they moved up steadily, averaging 39 cents for August; 45 cents for September; and 48 cents for October, 1864. They retreated to $0.44 in December, and averaged $0.68 for December 1865. From there they gradually rose to $1.00, at par with gold in December 1878. Greenbacks became freely convertible into gold, dollar for dollar, in January 1879. The accompanying graph shows how many Greenbacks one gold dollar exchanged for.

But to simply compare the Greenbacks to gold cannot give an accurate picture. The fact that they became convertible into gold was not necessarily a good thing, but arguably a very bad thing for the currency and the nation, as we shall see.




*17b.* **GREENBACK** vs **GOLD: Typically economists smear the Greenback as being worth 36 cents in gold. But this chart gives a much more accurate picture. Gold began dropping against the Greenbacks within a month of Congress limiting their total issue to $450 million.**

## LIMITATION OF ISSUE RAISES THE GREENBACK'S VALUE

Economists mistakenly argue that it was only because the Greenbacks were eventually made convertible into gold by law, that made them hold and increase their value. However, that law was a hard fought political struggle, dependent on the 1868 presidential election. The battle could have gone either way and the actual "resumption" law could not get passed by Congress until 1874, for implementation in 1879. This could not have kept the Greenback from further declines, and start moving it upward back in mid-1864.

**What did occur in July 1864 was that our government put a limit of $450 million on the Greenbacks and from that month they started rising (i.e. gold began falling in terms of Greenbacks).**

## ACTUAL PRICE MOVEMENTS DURING THE PERIOD

Wesley Mitchell's 1908 Greenback studies are watershed works. His method was empirical and was thus historically based on the facts. Examining the available data on price rises he quickly discovered that "There was no easy explanation of prices." Many related commodities didn't move the same, such as wool and cotton. Gunpowder prices didn't rise much. The fastest rising commodities in one period were sometimes the fastest falling in another period.

Mitchell gave the following general picture:[18]

1860 - wholesale prices were fairly constant.

1861 - wholesale prices fell sharply, before the war.

Autumn 1861 - an upward movement in prices began six months before the Greenback legislation, and continued throughout 1862.

1863 - northern financial and military successes led to a fall in prices. In late 1863 - prices started up again, reaching their maximum in January 1865, when 59 out of 90 commodities were at double or more than they were five years before.

## MITCHELL CREATES PRICE INDEXES

Measuring price levels is difficult. Ricardo thought that paper currencies could simply be compared to gold, but this ignores the real movements in the value of gold itself. In effect it assigns a fetish or religious position to gold.

Mitchell carefully constructed several price indexes as there were none in existence. Items had to be weighted for importance; averaging the data can mask really dramatic changes in particular prices. One especially volatile commodity price can throw off the whole index, such as the unique 1300% rise in the price of cotton during the war.

Mitchell's indexes started at 100 in 1860. The median of his commodity price indexes stood at 216 in January 1865. General Lee surrendered in April 1865 and by July 1865 the index was down to 158. It then reacted upwards, and thereafter fell through autumn 1871.

Mitchell's cost-of-living index median did not rise as much as commodity prices. It rose a maximum of 73% by 1866 in the east, 57% in the west. This is a very different picture from mere gold prices, which rose almost 200% at their highest point.

*17c.* **The Greenbacks functioned well, in spite of their being mainly spent on warfare, not merely a nonproductive activity, but a most destructive one, as this horrible scene from Gettysburg demonstrates.**

## RENTS AND WAGES

Other prices exhibited their own peculiar characteristics: Rents rose by 44% through 1870 and didn't come down much later. Mitchell's tables show an almost universal rise in wages during the war though not as much as wholesale or retail prices. Wages continued upward after the war, while other prices were falling. The highest point for wages came in July 1872.

Wages rose more slowly than other prices and didn't come down as much later. The median of wages rose 79% (to 179) by July 1871 and had come back to 125 in July 1879. At first, wages rose more for higher paying jobs. From 1866, the lowest paid workers had the greatest relative increases. Wages had greater relative increases in the west.

## AND REMEMBER THE WAR

While the Greenbacks lost substantial value for a period, the nation was engaged in the bloodiest war in its history, in which 13% of the population served in the armed forces and 625,000 died. Aside from the Revolution, the Civil War was the only war fought on our own soil. Is it reasonable to expect that any government in those circumstances could completely protect its citizens from financial and other hardships?

## COMMENTS ON THE WARTIME INFLATION

Unger has noted that:

"It is now clear that inflation would have occurred even without the Greenback issue."

And comparing a wartime inflation under a government run money system (the Civil War) to wartime inflation under a private banker run system (WW1), Civil War historian Randall wrote:

"The threat of inflation was more effectively curbed during the Civil War than during the First World War. Indeed as John K. Galbraith has observed, 'it is remarkable that without rationing, price controls, or central banking, Chase could have managed the federal economy so well during the Civil War.'"[18]

The fact that the Greenbacks were not accepted for import duties may also have been an important negative factor against the currency:

"Hence it has been argued that the Greenback circulation issued in 1862 might have kept at par with gold if it, too, had been made receivable for all payments to the Government," wrote financial historian Dewey.[19]

Also, if interest payments on government bonds had been paid in Greenbacks instead of gold, a large part of the demand for gold would have disappeared.

Studenski and Kroos, in their authoritative *Financial History of the United States,* pronounced in favor of the Greenbacks:

"Some writers have ascribed the price inflation almost entirely to the issuance of greenbacks, but this is a mistaken view. Even if the greenbacks had not been issued and bonds had been sold at whatever price they would bring in the market, inflation would have taken place. It would merely have taken another form - that of the monetization of debt through the issue of bank currency or the creation of bank credit."[20]

AND WHAT IF?

Since our purpose is to evaluate the Greenbacks as a money system, the following question must be asked: What if the $450 million Greenbacks had gone into production of houses, industrial tools and machinery and other items that would have created both wealth and increased productive capability for Americans, rather than going into the destruction of those items?

CONFEDERACY'S PAPER MONEY FAILS

The Confederacy also issued paper money, but made major monetary errors in the way they did it. Even less enthusiastic than the North, the Confederacy's Treasury Secretary, Christopher Memminger, was afraid of paper money, which he called: "The most dangerous of all methods of raising money."[21] The South never made the Confederate money a legal tender, a monetary/military error of great magnitude.

Even worse, the Confederate paper money was not money in itself but was merely a promise to pay money later. Typically, the face of Confederate notes have this phrase:

"Two years after the ratification of a treaty of peace between the Confederate States and the United States of America, the Confederate States of America will pay to the bearer on demand 'X' dollars." 'X' being 5, 10, 500, or whatever the note's denomination was.

The Confederacy raised a total of $712 million in various loans, according to Lerner.[22] These loans constituted about 39% of the South's total revenues. The rest came from paper money. In June 1861 there was $1 million in Confederate currency outstanding. By January 1864 there were $826 million outstanding. During the same period, bank notes and deposits of southern banks rose from $94.6 million to $2.68 billion.

In the North the banks created $1.49 per Greenback dollar created by the government. The southern banks also had no central bank system and they created far less of the money supply than in the North; $1.20 for each dollar created by the Confederate government, according to Lerner, but considerably less, according to Godfrey.[23]

In February 1864 the Confederate Congress forced the conversion of the currency into a 20-year bond paying 4%. This was their third major monetary error. Confederate currency not tendered for this conversion was devalued one-third after one and a half months and two-thirds after about a year. The reform had a temporary effect as the Confederacy continued to issue paper, finally issuing $1.55 billion of currency, compared with the North's $450 million. Unlike the North, the South placed no limit on its issue of paper notes, thereby violating another primary monetary principle - limitation of issue. Strike four.

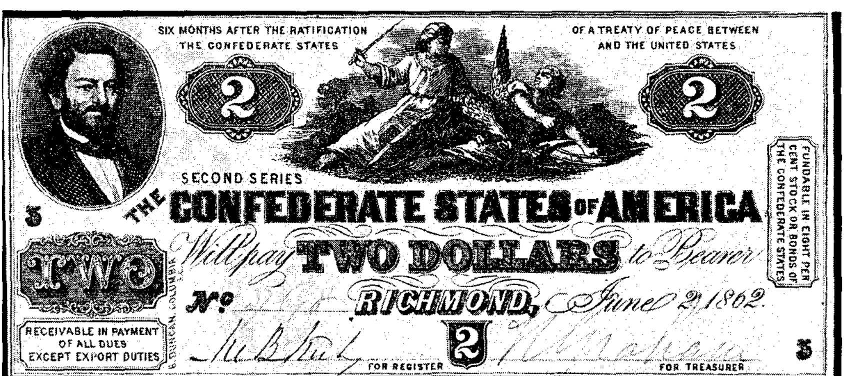
Lerner estimated the value of confederate notes against gold:[24]

| | | | | |
|---|---|---|---|---|
| 1861 | $1 Confederate | = | .90 | of gold |
| early 1862 | " | = | .83 | " |
| early 1863 | " | = | .29 | " |
| early 1864 | " | = | .05 | " |
| early 1865 | " | = | .017 | " |

When a state loses a war of existence, its nominal currency, and much of the property of its citizens is lost.

WERE THE GREENBACKS UNFAIR TO CREDITORS?

No shortcomings have been raised against the Greenbacks as being inconvenient to internal trade or failing to serve as a superb medium of




*17d.* **The Confederacy made several fatal errors in issuing its paper money. Instead of being money in itself, it promised to pay money later. This bill reads: "Six months after the ratification of a treaty of peace between the Confederate States and the United States of America, the Confederate States of America will pay to the bearer on demand two dollars."**

exchange for private as well as public transactions. But what about when an old contract between private citizens for coinage was paid in Greenbacks? Wasn't that unjust to the lender? Didn't it mean that someone who had lent gold or silver was being paid back in less valuable paper?

No doubt there were some cases where actual coinage was lent. However, in all likelihood what was lent in the overwhelming majority of cases prior to the Greenbacks was bank paper money, which pretended to be convertible into gold or silver. But system-wide, this pretension was a fiction. When the government substituted its paper for the bank paper, whatever other economic events occurred, it was replacing the bank paper with a superior paper asset.

The disappointed lenders should have been asked how their debtors could have paid them in coinage after the banks suspended convertibility of bank notes into coinage, in December 1861. The suspension showed that the metallic backing was a fiction - a fraud. Would it have been fair for the breakdown of this fiction to fall only on the backs of the debtors? After all it was the bankers, not the debtors, who had perpetrated the fraud that their paper bank notes were convertible into coinage. *In effect, system-wide, the debtors had not been loaned metal, but paper.* And how many of the lenders were banks? Still there would be those seeking a pound of flesh from the debtors, but their claims were eventually denied by the U.S. Supreme Court.

## THE NATIONAL BANKING ACT OF 1863/64

The National Banking Act was in preparation, to replace the inadequate state banking structure, as the Greenback legislation was passed. Some legislators viewed the two laws as politically connected. The Banking act became law on February 25, 1863. However, Congress had to correct some of the law's technical errors in June, 1864.

The National Banking Act, which provided for the national chartering of banks by the federal government, has been characterized as a triumph of the Federalist/Whig tradition of Hamilton, Clay, and Biddle. States that had strict banking laws could henceforth be bypassed. Previously only two banks had national charters, both by Congressional acts - the first and second Banks of the U.S. The Bank of North America had been a Pennsylvania state bank. Now obtaining a national bank charter would be a routine matter.

## PROVISIONS OF THE NATIONAL BANKING ACT

The act created a system of National Banking Associations under the supervision of the Treasury's newly created Comptroller of the

Currency. The new law started to clean up the operational fraud always connected with banking in America:

* Quarterly reports were required to be published.
* The banks' capital was strengthened as a minimum of $50,000 was needed to start a bank.
* A bank's indebtedness was limited to the amount of its paid-in capital in U.S. notes.
* The reserves of the banks were strengthened as each bank had to purchase Treasury bonds in the amount of 1/3 of its paid in capital, $30,000 minimum.
* Initially each bank shareholder was made individually liable for the obligations of his bank - up to twice the par value of his stock.
* The comptroller of the currency, not the individual banks, was responsible for printing bank notes. These were furnished to the banks, with their own names on them, up to 90% of the value of the government bonds the bank had deposited with the treasury.
* A maximum of $300 million of such notes, system-wide, was decreed.
* Banks were required to maintain a 25% reserve (15% in small towns) of their combined circulating notes and deposits.
* The notes of the national banks were made acceptable for most U.S. dues. Notes were to be received by all member banks at full value.
* The U.S. Treasury got an annual tax of 1% on a bank's average circulation, plus 1/2% on it's deposits and capital stock.

Many state bankers were very hostile to the arrangement. Only when Congress placed a 10% annual tax on state banknote issues, on March 3, 1865, did most of the state banks make plans to join the national system. Charles Conant claimed that the reason the state banks were not joining the system was that at first it required them to drop their names and be known only by numbers![25]

After the 10% tax on state chartered bank notes was decreed, their circulation dropped from $179.2 million, down to $19.9 million, on the effective taxation date, clearly demonstrating the power of law to get the Banker's attention.

On June 30, 1863 the lst National Bank of Philadelphia became the first to get a national charter.

According to Conant:

| | | |
|---|---|---|
| in 1864:- | 453 | national banks with $79.4 million were chartered. |
| in 1865:- | 1014 | “ “ “ $242.5 “ “ |
| in 1866/67- | 72 | more were chartered. |

The National Banking Associations proceeded to implement a grossly unfair distribution of the $300 million of banknote issue. For example, the city of Woonsocket, Rhode Island was given more circulating currency than North and South Carolina combined. Rhode Island was given $77.16 per capita. Arkansas was given $0.13 per capita. The State of Connecticut was given more than the combined circulation of Michigan, Iowa, Minnesota, Kansas, Missouri, Kentucky, and Tennessee. The original $300 million limitation on bank notes circulation was increased slightly in 1870 to $340 million.

THE ACT RESTRICTS OPERATIONAL FRAUD

There are always two types of bankers preying upon society. First, those engaged in outright operational fraud - the obvious cheats - who have plagued America throughout our history, right up to the 1980s and 90s Savings and Loan scandals, and no doubt the present. For example, the former Republican President's son, Neil Bush (brother of the 2nd Bush President), who engaged in obvious conflict of interest dealing; or the bankers who created phony corporations to illegally channel money to themselves. The sons of two prominent Democrats were also caught cheating: Robert Strauss, then American Ambassador to Russia, and Lloyd Bentsen, first Treasury secretary under President Bill Clinton.

BUT THE ACT ENTRENCHES STRUCTURAL FRAUD

Then there are the more dangerous bankers - the ones who don't break the law but follow it. These "financiers" are engaged in a kind of structural fraud, preying upon society from behind the cover of inadequate or ill defined or purposely mis-constructed laws, which grant them special privileges.

An example of how this legalized structural fraud was done is that immediately upon the passage of the National Banking Act during the Civil War, **while the U.S. Government authorized and issued $450 million Greenbacks, the private bankers created $1.49 in their own money for every Greenback the Government issued!**

Treasury Secretary Salmon Chase and others bitterly complained about this. Dewey wrote:

"The banks were accused of absorbing the government notes as fast as they were issued and of putting out their own notes in substitution, and then at their convenience converting the notes into bonds on which they earned interest [in gold]. 'It is a struggle on the part of the banking institutions of the country to bleed the government of the U.S. to the tune of 6% on every dollar which it is necessary for the government to use in carrying on this struggle for our independence and our life.'"[26]

Thus while the National Banking Act limited petty fraud, it entrenched the more dangerous structural fraud into American banking. This fact was not lost on some observers. Judge Rufus P. Ranney called on Democrats to "consider how much danger there was in a system that had replaced the Bank of the U.S. If with its $35 million in capital the old Bank had [dominated] the press and Congress 'what are we to think of the numerous banks with their hundreds of millions in capital?'"[27]

Another example of structural fraud is the charging of interest by banks on money they create out of thin air. **Such interest, if it is to be charged, belongs to society. Even more important is the control over the flow of credit in the society - the favoritism practiced in directing the flow of newly created money into the hands of privileged special interests.**

Those using structural fraud are more difficult to stop than the common thieves. Indeed, with few exceptions, societies have been unable to stop them and have watched helplessly as the bankers' systems periodically and "legally" destroyed their economies, and sometimes their nations.

Recently, when political murders took place in some central American countries, our news commentators would remark that their legal systems were "too immature" to deal with the problem. Likewise our own legal system has proved too immature to deal with fraudulent banking practices.

## THE BATTLE OVER THE GREENBACKS

When the Civil War ended, attacks began on the Greenbacks from two sources - those whose financial privileges were threatened by them and from religious groups, especially from the Calvinist religious sects.

Opposition to the Greenbacks by bankers would of course be expected and discounted, though it could be effective in bribing legislators and editors.

The fight against the Greenbacks was a concerted political, religious and legal effort. It was not to be allowed to be determined by the results of the money system, or its economic effects. There was no idea of letting "market forces" demonstrate the supposed superiority of banknotes or metallic money over the legally created Greenbacks. The reason is because the Greenbacks worked very well, even under crisis conditions, and could not be brought down or embarrassed by such a trial; and its informed opponents knew it.

## THE SUPREME COURT DECISIONS

The constitutionality of the 1862 Greenbacks law was argued in the Hepburn vs. Griswold case. Hepburn was demanding payment in gold, from a contract entered into with Griswold, before the legal tender law had been passed. In February 1870 the understaffed Supreme Court issued an unclear ruling against Griswold (delivered by new Supreme Court Justice Salmon Chase, the former Treasury Secretary!), but it was soon realized that this very unpopular and faulty decision might also be applied to contracts entered after the legal tender laws were passed. There was widespread acknowledgment that further clarification was needed from the Court and that occurred in May, 1871 when the Knox vs Lee case reversed Hepburn and upheld the constitutionality of the Greenback legal tender act.

"But the creditor group will lose some of its gold!" wrote Justice Bradley, rhetorically, in his opinion. "Is gold the only thing needful? Is it worse for the creditor to lose a little by depreciation than everything by the bankruptcy of his debtor?...is it worse than to lose everything by the subdivision of the government? What is it that protects him in the accumulation and possession of his wealth? Is it not the government and its laws?"

Unable to repudiate the Greenbacks, the Bankers agitated to make them convertible to gold.

## PASTOR AND PROFESSOR AGAINST THE GREENBACKS

But the real damage to the Greenback came from the incessant attacks and smearing by the religious establishment through their churches and universities. Higher education in America was dominated by religious organizations. D.S. Tewksbury noted that:

"The American College...was designed primarily as a 'nursery of ministers,' and was fostered as a 'child of the church'...practically all the colleges founded between the Revolution and the Civil War were organized, supported and in most cases controlled by religious interests."[28]

They insinuated their outlook into many areas of American life to dominate the American psyche: "The forces of irreligion, of rationalism and of deistic thought were effectively checked on a hundred fronts," wrote Tewksbury.

For example, on the slavery question:

"In the South the religious defense of slavery was vigorous and widespread. What is not so generally recognized, however, is that slavery 'found many defenders...[in the North] particularly in colleges and churches,'" wrote Lyons.[29]

Except for the 21 state colleges and a few other exceptions, before 1860 colleges in America were primarily religious institutions:

| **Denomination** | **# of colleges** |
|---|---|
| Presbyterian (Calvinist) | 49 |
| Methodist | 34 |
| Baptist | 29 |
| Congregationalist (generally Calvinist) | 21 |
| Catholic | 14 |
| Lutheran | 5 |

The remainder of the sects had four or fewer colleges each.

In the 1860s and 70s this religious control over education was expressed in the Greenback Battle:

"Allied with the clergy in the work of creating an 'orthodox' financial view were the academic economists. Before the Civil War the clerical influence pervaded American higher education and at most American colleges 'political economy' was taught by a minister, as a branch of 'moral philosophy'...Pastor (and) professor...helped erect a formidable psychological barrier against greenbackerism," wrote Unger.

MONETARY "SMOKING GUNS"

Irwin Unger's 1964 book, *The Greenback Era*, detailed the anti-Greenback activities of the religious sects. Their thrust was to smear the Greenbacks as immoral, while ignoring the excellent economic working and superior morality of the Greenback system compared to that of the bankers.

Their method was a double pretense: first to pretend that money had to be gold and silver; second to pretend the bankers' notes were really convertible to gold and silver.

"From the very first the ministers and the religious editors were active partisans who identified hard money with virtue," writes Unger. "The Calvinist denominations took the lead in the religious attack on heretical financial ideas. Atwater was a Presbyterian; Bacon a Congregationalist; the Advance, the Christian Mirror as well as the Boston Recorder and the Presbyterian Banner...were all Calvinist papers ...Other Protestant groups opposed soft money...but throughout the debate, the Calvinist voice is heard most loudly."[30] And:

"The Christian defense of hard money eventually led to a very un-Christian fetishism that gave the precious metals almost supernatural powers. At its extreme it approached demonology...(some believed) that paper money exerted an 'influence for bad as subtle as the evil one!' ...Under the ceaseless hortatory barrage of the pastors and the denominational press, hard money took on the odor of sanctity."

And further:

"'The religious press has almost without exception been the allies of the bondholders and bankers in their endless schemes to fleece the public, and the mouthpiece of the monopolists and the defender of the soulless corporations that fill their pockets by robbing the toiling people,'" wrote Industrial Age magazine on October 31, 1874. 'Even bankers and brokers occasionally supported labor reform, a writer in Industrial Age noted, but 'The religious press has almost universally wheeled into line in support of the Shylocks and the Sharpers.' (May 1, 1876)"

The editor of the religious Chicago *ADVANCE*, A.B. Nettleton wrote:

"The overthrow of the greenback heresy...is really an event of national and historic import."

Henry Ward Beecher preached hard money sermons to his flock, but:

"Cameron turned Beecher's 'Thou shalt not steal' against the Brooklyn pastor's stylish congregation - full of 'shady' contractors who had amassed fortunes during the war by cheating the government," wrote Unger.

This may give an insight into the motives of the Calvinist sects. Did they want the monetary power to be held by members of their congregations and others they regarded as "elect" or "chosen"? Like Witherspoon at the Constitutional Convention (see Chapter 15), they worked overtime to keep the money power from being properly constituted in the government. Their founder Calvin had written: "The people must always be kept in poverty in order that they may remain obedient."[31] One of the most effective steps in raising a people out of poverty is a societally controlled fair money system.

## THE GREENBACK DEFENDERS

"The Greenback appeal was more abstract than has been realized," wrote Unger, surprised. But it had to be abstract; money in its ultimate form is abstract rather than concrete. Facing religion's pretense of morality in its attack on the nation's money system, men of courage, understanding and patriotism put forward reasoned defenses of the Greenback system. They made proposals for its permanency, and they proposed to remove the privileges granted to the "People of the Bank" by the new National Banking Act.

LYMAN DEWOLF

Lyman E. Dewolf in 1869 stated his purpose:

"The gross and unjust demands of the capitalists, coupled with the disordered state of the national finances which their false system has mainly produced rendered the publication of such a work necessary and at the earliest possible moment."[32]

Dewolf had a high level of monetary awareness:

"If it is supposed that money is only good by the commodity value it possesses and not by its legal attributes, then money must ever remain simply a commodity, and all exchanges barter, which is the very difficulty which civilization has been supposed to remove." And:

"Take away from gold and silver the shield of law contained in these various mint regulations in the uses of those metals...and it would be difficult to determine either their value or ultimate use.

"The unit in money can have no invariable determinate proportion to any part of value, that is to say it cannot be fixed in perpetuity to any particular quantity of gold and silver or any other commodity."

*17e.* **Civil War General Benjamin F. Butler watched the activities of moneychangers in his jurisdiction for indications of the outcomes of battles. Later, as a Congressman, he delivered speeches with great monetary insight, and later ran for the Presidency on a Greenback platform.**

## CAMPBELL'S CONVERTIBLE BOND PLAN

Illinois Congressman Alexander Campbell (1814-1898) put forward his convertible bond plan to end special privileges for bankers and unify the currency, by making the Greenbacks into a permanent system. Campbell's plan would eliminate private bank notes, which were to be called in over a six-month period, and be exchanged for the U.S. Government bonds that the banks already had deposited at the U.S. Treasury as security pledges for their currency, under the 1864 Act.

Campbell's plan called for all government expenses, including the then existing debt, to be paid for with these new Greenbacks. The proposed greenbacks could be used at any time to buy government bonds, the interest and principle of which was to be payable in Greenbacks.[33]

## BENJAMIN BUTLER UNDERSTOOD

While most of the Greenback supporters came from the Democratic and later the independent parties, there were rare Republicans among them. Benjamin Franklin Butler was an articulate defender of the Greenbacks. Butler had been born a Calvinist, but then "rejected Calvinism altogether," according to the *Dictionary of American Biography*. At one time he owned the blockade-running sailboat "America," which won the first America's Cup race against the British.

He had been a Civil War general with a reputation for harshness and was nicknamed "Butler the Beast." He became a congressman from Massachusetts and eventually ran for Governor on the Democratic ticket and later for President on an Independent paper money platform. Butler had always been a student of finance and had kept a close eye on the activities of moneychangers within his military jurisdictions for indications of how the war was going.

In a speech to the House an January 1, 1869, he laid out the position of those supporting the Greenback system. The currency, he said, should be:

"Uniform, sound, cheap, stable and elastic." He warned that the attempts by bankers to change the law to force payment of government bonds in gold would "cause the greatest depreciation of values in every [type] of property except debts held against the government and individuals. Every bond and note would appreciate say 30%. All other property would depreciate the same amount."

He also attacked the proposals to make the Greenbacks themselves convertible to gold, and denounced the supposed advantages of such a move.

Butler made it clear he was not promoting inflation:

"Let no man say that I desire to establish or perpetuate a depreciated currency. I think I have proposed a currency as valuable as gold and for all purposes of a circulating medium, better than gold...But what I desire is that the currency shall not be redeemable in gold and silver...**In other words the value of the currency of this country, its volume, its stability, the values of all property of the country, shall no longer be at the mercy of the panics, the caprice, the speculations, or the needs of the bankers of Europe or the traders of Asia...**

"My...proposition is to take from the national banks all power to issue notes to circulate as money, leaving them as they are now banks of deposit, loans and discounts, but not of issue."

Butler's general proposal for a permanent greenback system followed:

"The government shall issue an amount equal to its taxes, say $350 million of certificates of value of convenient denomination...which shall be lawful money and legal tender for all debts, public and private, which by the law creating them are not made payable in coin and shall be receivable for all taxes...of every kind whatsoever, to be re-issued at pleasure...and which shall be receivable for all public loans made to the United States...

"We have divested our government of every trait of the despotism, every attribute of the monarchies, and every vestige of the slaveries of the Old World, save one, and that is the all controlling, and all absorbing power by which masses of the people of all nations of the earth have ever been enslaved - coined money...

"Our patriot fathers, founding a government for themselves on this continent carefully eliminated from its framework every attribute of monarch and aristocracy, the divine right of kings...all save one: they retained whether for good or evil, the precious metals...as the standard by which to measure the property and industry of the new Republic...

**"We marvel that they saw so much but they saw not all things.**

"I stand here therefore for inconvertible paper money, the greenback which has fought our battles and saved our country...I stand here for a currency by which the business transactions of 40 million people are safely and successfully done...that money which saved the country in war and has given it prosperity and happiness in peace...I stand for that money therefore which is by far the better agent and instrument of exchange of an enlightened and free people than gold or silver, the money alike of barbarian and despot."[34]

This is one of the outstanding speeches of American political history.

Our research confirms Butler's view of the monetary enslavement of societies, and noting the historical connection between money and the temple organizations of the past as well as the religious organizations after the Civil War, we hypothesize a step further into the moral sphere: the oriental enslaving tendency of using precious metals, or private banker created money, **pretending to set up a measuring scale for *economic values*,** is one side of a double edged sword. The other indispensable side of that sword of enslavement is religious; the influence of the Eastern cults on Western life, **pretending to set up a scale of *moral values*.** It is probable that neither edge of the sword can exist for long without the other.

The Civil War crisis quickly exposed the weakness of a money system based on bankers promises; as almost any crisis does. The war also highlighted a system that functions in or out of crisis - a money system controlled by our government. The Greenbacks demonstrated that government-issued fiat money served the commercial, industrial and fiscal needs of the nation even in the middle of warfare. **Once again our government limited the issues to the authorized amounts, in contrast to the bankers' capricious issue of their paper notes.**

Against this excellent record, the English school complains that gold temporarily rose against the Greenbacks! But tracing the action of various prices, rents and wages we obtain a truer picture of their good performance.

Bankers, professors and ministers joined in a concerted attack against the Greenbacks, looking to their own interest rather than that of the country. Especially noteworthy was the great concern the bankers demonstrated to remove this example of government money from circulation, where it gave the public a daily lesson in sound "monetary theory".

### *Notes to Chapter 17*

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[11] *The Collected Works of Abraham Lincoln*, edit., R. Basler, (Springfield: Rutgers Univ. Press, Abraham Lincoln Assoc., 1953).
[12] William Graham Sumner, *History of the American Currency*, (New York: Holt, 1874), pp.196, 202.
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[19] Davis Rich Dewey, *Financial History of the United States*, (New York: Longmans Green, 1903), p. 283.
[20] Studenski & Kroos, cited above, p. 148.
[21] Randall, cited above, p. 260.
[22] Eugene M. Lerner, in Milton Friedman's *Studies in the Quantity Theory of Money*, (Univ. of Chicago Press, 1956). Lerner's estimates are now considered high.
[23] See Richard H. Timberlake, *The Origin of Central Banking in the United States*, (Harvard Univ. Press, 1978), pp. 90-105.
[24] Lerner, cited above.
[25] Charles Arthur Conant, *A History of Modern Banks of Issue*, (NY: Putnam, 1909).
[26] Dewey, cited above, p. 324.
[27] as quoted by Irwin Unger, *The Greenback Era*, (Princeton Univ Press, 1964).
[28] D. S. Tewksbury, *The Founding of American Colleges and Universities Before the Civil War*, (NY: Teachers College, Columbia Univ., 1965), pp. 50-57.
[29] Randall, cited above, quoting Adelaide Lyons, *Religious Defense of Slavery in the North*, (Durham: Trinity College Historical Society Papers, 1919), p. 5.
[30] Unger, cited above, pp. 123, 125, 126.
[31] *Kampschulte*, I, as quoted by Hartman Grisar in *Martin Luther*, transl. F.J. Eble, (Newman Press, 1955, please see details in our bibliography), p. 430.
[32] Lyman E. Dewolf, *Money - its Use and Abuse*, (Chicago: Pigott Webster, 1869), pp. 33, 170.
[33] Alexander Campbell, *The True Greenback…*, (Chicago, 1868).
[34] All Butler quotes from speech to House of Representatives, Congressional Globe, 40th congress, 3rd session, 303 ff.

# CHAPTER 18

# 19TH CENTURY MONETARY CRIMES - THE GREAT DE-MONETIZATIONS

"The conspiracy…formed here and in Europe to destroy ...from three-sevenths to one-half of the metallic money of the world, is the most gigantic crime of this or any other age."

John G. Carlisle,
U.S. Treasury Secretary

By 1800 the Bank of England had been operating for over a century, transferring the power and wealth of society to the People of the Bank - the bankers and associated "financiers." Though previously subservient to government, they soon came to dominate government and society by usurping the nation's monetary power. Great concentrations of wealth were accumulated through macro usury - the structural misuse of society's monetary mechanisms. As this power and privilege was immorally gained, so was it irresponsibly used to further pillage societies from within and from across national boundaries, utilizing the monetary weapons best understood by these miscreants. Thus the 19th century witnessed monetary crimes on an immense scale.

We've traced American developments through the mid-1860s and now examine their international context, as so much of what happened in the U.S. originated abroad.

The world was about to witness vast, consciously executed deflations, starting in England, then Europe's Latin Monetary Union, the

U.S., and finally Japan. While the primary mechanism of deflation was the gold standard, each country's situation presented different opportunities for bankers to reduce the money supply and increase the value of the nation's currency units which were owed to them. But first we must understand the motive.

WHY SOME BANKERS DEFLATE

Ideally (and admittedly oversimplifying), society should expand the nation's money supply to keep up with population growth, and the growth in commerce and industry, with the value of the unit of currency remaining fairly stable, or declining slightly in value over time.[A]

Privately controlled money has no motive to give this optimal result. It usually starts by over expanding the money supply, causing excessive loss in the value of the currency ("inflation" or more accurately, depreciation of the currency), forcing the nation into debt to those holding the monetary power. Historically, the new money is usually created mainly for production that will be destroyed in warfare rather than becoming additional productive machinery and infrastructure in the society.

Then when it becomes clear to all that they are harming the currency, private control overly restricts or contracts the money supply. This increases the value of the currency unit, making it difficult or impossible to repay the accumulated private and public debts. This dramatically transfers wealth and power from the society as a whole to its wealthiest elements, the bankers and other debt holders.

Of these two private money "games," over-restriction and deflation are by far the worse, directly and indirectly causing severe problems in all areas of life. For one thing it keeps large numbers of potentially working people unemployed. The loss of these billions of man hours of productive work is never made up; neither is the harm done to the unemployed and their families.

Deflations that go out of control also often take the weaker banks down, but generally not those that are within the society's controlling power structure.

WORLDWIDE DEMONETIZATION AND DEFLATION MOVES

The 1849 discovery of gold in California caused panic in some financial circles. They feared a repeat of the 1500-1700 AD experience

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A) The Austrian School erroneously asserts that any expansion of a fiat money system must lead to growing inflation, and then inevitably to a collapse. But this error arises out of their incorrect commodity-like definition of money, and their failure to properly distinguish between money, credit, and wealth, as we'll show.

where gold and silver lost over 80% of their value and never regained it, as the metallic plunder from America poured into Europe as we described in Chapter 8.

In his 1853 book, the Frenchman Michel Chevelier warned readers that their bonds would lose value:

"The probable effects of the increased supply of gold, are now assuming a preponderance over all other subjects. The anxious pause of curiosity is latent but it is nevertheless felt by everyone…In our day we seem destined like our fathers of three centuries ago and from the same causes to witness the shock and crisis of a universal rise in prices."[1]

He advised that either gold or silver should be demonetized - that one of them no longer be sanctioned as money by governments.

France was suffering from a poor coinage situation with much clipping and culling. Wise men argued that the coinage was a public institution, and urged the enforcement of the existing severe penalties against coin clippers, but Chevalier advised his readers to break the law and pick out the heavier coins and melt them down. He argued that the problem was the government's fault for not maintaining the coinage. This blaming of government for the monetary mischief of private persons is not new.[2]

*Save yourself*, he advised his readers, and let your neighbors and society fall, rather than attempt to remedy the social and economic ills.

But in fact, nothing was really happening. The new gold production was easily being absorbed in money systems, as industrialization progressed. Thus Chevelier's odd comment: "It is...remarkable that up to this time the fall in gold, as compared with silver, has been hardly perceptible."

**Yet Chevelier was taken seriously. The Germanic Confederation went so far as to de-monetize gold in the treaty of Vienna in 1857. They reversed themselves 14 years later, in 1871, re-monetizing gold and de-monetizing silver**.

Chevelier's predictions of the coming inflation never materialized. In fact the world was about to be pushed in exactly the opposite direction.

## ENGLAND STARTS THE WORLDWIDE DEMONETIZATION OF SILVER

The primary deflationary technique was to implement a gold standard, and to demonetize silver, declaring it not a legal tender for debt payments. This had begun in England in May, 1774, when the first legal tender law in England limited payments in silver to £25. In June, 1798, coinage of silver was suspended at the English Mint and in 1816 a law limited silver legal tender payments to £2 (see Chapter 12).

Monetary theorist Henri Cernuschi would later label this "A disastrous and chimerical operation...invented by Lord Liverpool."[3] In his classic *State Theory of Money*, George Knapp would observe that:

"England's reasons for going over to the gold standard have never been fully explained."[4]

THE PROBLEMS OF BIMETALLISM

Bimetallism as then practiced was susceptible to private manipulation. From about 1825 problems arose once again in Europe out of coin clipping and the slightly different gold/silver ratios resulting from the differing values assigned to the metals by different nations. "Financiers" would export gold and silver back and forth on a large scale to take **riskless** advantage of these tiny differences in their official values.

W.A. Shaw's *The History of Currency 1252 to 1896* clearly described the process by focusing on the activities of speculators:

"Such is the nature of the bimetallic law that any overshooting of the ratio on no matter which side - in favor of silver or in favor of gold - establishes a differentiation, and the differentiation at once gives to the one metal a fulcrum or lever point - a purchasing power - against the other, and the undervalued metal, whichever it is, at once tends to disappear."

Shaw noted that in centuries of coinage laws:

"There is no idea of separating the two metals...there is no intention to declare a ratio; there is no conception of bullion apart from coin...The advantage which was to be derived from a trade in bullion, and from an understanding of the effects of differently prevailing ratios in different countries, was known only to the Jew and Italian. They plied their trade in secret, and the legislature was only apprised of the result by suddenly finding a slipping away and dearth of coinage..."

The real problem to the nation under such attack was that:

"The danger of arbitrage transactions to the medieval legislator lay in the fact that they stripped the country, which suffered from them, not merely of a bullion reserve, but of her actual currency, and rendered even internal trade impossible."[5]

THE ANCIENT RATIO MECHANISM STRIKES
ONE LAST TIME

An added threat to Europe was the ancient disparity in gold/silver ratios between Europe and Asia, described in Chapter 3, which had plagued monetary systems from antiquity, and once again demonstrated its power to affect modern capitalism.

This will be the last time we see this mechanism having a substantial monetary impact on the West, for India had been conquered by the British and in 1821 Britain had raised the ratio in India to 15 to 1. However, from 1852 only silver coins were legal tender in India, reflecting the higher esteem in which the Indian populace held silver. This drew silver from Europe.

France was bimetallic, but mainly used silver money from 1803 to about 1848. Belgium, which had separated from Holland in 1830, was using French money for nearly all (87%) of its circulation by 1860. Switzerland also used France's money system and had made it legal tender. Italy also adopted the French system in 1862, abandoning independent principality money.

THE LATIN MONETARY UNION DEMONETIZES SILVER

In 1858 an international commission was formed to study and remedy the monetary problems. It suggested tariffs on exporting silver and recommended harsh punishment of illegal money speculation. None of its proposals were acted on and silver exports to India grew: 91 million Rupees in 1862; 126 million Rupees in 1863; and 129 million Rupees in 1864.[6]

This Commission evolved into the Latin Monetary Union (France, Switzerland, Belgium, Italy, and Greece ) and it quickly shifted away from gold demonetization toward silver demonetization, from 1865-73.[7]

Since there were approximately equally valued amounts of gold and silver coinage available for monetary purposes in the West, demonetizing either metal would eliminate about one half the West's metallic money supply. The impact on the wealthy bond holders in all countries would be a large gain of money and power for decades as the value of the currency unit rose.

By 1867 the Latin Monetary Union's conference included most European countries, the U.S. and Russia; 19 in all. Significantly, England never joined this monetary union.

Germany would finally be the catalyst for action. She warred with France in 1870 and won. Bismarck extracted an unprecedented war indemnity of 5 billion Francs. Having just demonetized gold in 1857, Germany reversed course in December, 1871 and went onto the gold standard in order to receive payment from France in gold rather than silver. France had to dump silver to get the gold.

The new German monetary system required German banks to sell their silver by February, 1873, adding to the market pressure on silver.[8] Finally Germany demonetized silver altogether in July, 1873, leaving France as the only major European nation still using silver money. H. Parker Willis ridiculed France's long standing use of both gold and silver money from medieval times as a "bimetallic cult."

In 1873 France was forced to limit silver coinage; in 1876 she canceled her law on free coinage of silver; in 1878 she agreed to redeem her silver coins in gold if requested, and agreed to stop minting new 5 Franc silver coins. For practical purposes all of Europe was now on a gold standard.

## THE DEFLATION EVEN REACHES JAPAN

The worldwide deflationary attack reached Japan when the Central Bank of Japan was established in October, 1882 and immediately adopted a deflationary course:

"Entering upon a policy of contraction in 1882, the government firmly persisted in its measures," wrote Masayoshi Takaki in *The History of Japanese Paper Currency*, "But this wholesome end was not and could not be this rapidly attained without great disturbances in all other business,"[9] and:

"With the fall in prices, distress and desolation extended over the land, and millions of people who had supposed themselves to be on the high road to wealth suddenly found poverty staring them in the face, while exacting creditors an all sides demanded the liquidation of debts."

Two points deserve special mention: First, the establishment of a Japanese central bank under the advice of Finance Minister Ito Hirobumi did not start with the normal expansion phase as in all other such central bank foundings. Hirobumi had been smuggled out of Japan with four other students by the Jardine Matheson company in 1863 to study in London. The Bank was founded after he returned from a U.S. visit to study the American money system.

Japan's central Bank was privately owned, under the dominance of the Mitsui group, the world's oldest commercial enterprise, established in 1616 when its founder Sokubei Takatoshi renounced his Samurai status to become a merchant. By 1882 it was the most powerful organization in Japan and its leader was an enigmatic figure, Minomura Rizeamon, known as the "Man From Nowhere." He kept Japan in line with the prevailing worldwide deflationary policy.[10]

Second, the deflation was accomplished without using the gold standard as the normal deflationary agent, but by withdrawing the legal tender "Han satsu" - the paper currencies that had been issued by about 250 clans, starting from the 1600s. It was not until 1899 that Japan was effectively on a gold standard.

HALF THE WORLD'S METALLIC MONEY DESTROYED

Alexander Del Mar, estimated that the silver demonetizations cut Europe's money supply in half:

"Mr. Carlisle (later Secretary of the Treasury, 1893-97) said in the House of Representatives, February 21st, 1878, 'The conspiracy which seems to have been formed here and in Europe to destroy by legislation and otherwise, from three-sevenths to one-half of the metallic money of the world, is the most gigantic crime of this or any other age.'"[11]

The literature of the time indicates that Americans, with their wider monetary heritage, were more aware or at least more vocal than the Europeans about the harmful effects of these reductions in the metallic money supply.

These demonetization episodes demonstrate that the financiers' insistence on gold or silver for money *was not part of an honestly held, though incorrect, monetary viewpoint, that the precious metals were really money.* Its purpose was not to optimize production, trade, employment, or the progress of humanity. It was in large part a ruse by which they assured the monetary power would remain in their hands. The episodes show that the old gold standard was not an automatic market mechanism, or one to be allowed to depend on natural developments such as new gold finds. It was a controlled and managed system - managed for the benefit of its managers.

GROWING AMERICAN POWER

America was foreseen to become a superpower as early as the 1700s by Philip Cantillon (see Chapter 12). In the early 1800s Alexis De Tocqueville predicted America would become the ruler of the seas. Europe's financial establishment would probably have preferred to deal with an America divided into North and South, which could more easily balance against one another by European intrigue. But President Lincoln made the difficult and bloody decision to fight:

"From the outset of the war, therefore, the great body of the aristocracy in England was anxious to see the U.S. go to pieces," wrote Randall.[12]

Elements in England, France and Austria intrigued against the North. For a time England allowed warships to be constructed for the South, though it was a circumvention of her laws. The only European power to support the North was Russia, which sent a fleet of warships to its aid.

Disaster struck England when it became clear the American union would be preserved:

"It might have been thought that the ship carrying England and her fortune had suddenly sprung a leak," wrote Woloski in August, 1866. Sir Strafford Northcote called it a "run upon England" as her markets crashed on Black Friday, May 11, 1866.[13]

BANKERS FEAR THE GREENBACK EXAMPLE

Issuing the Greenbacks was based on legislative authorization rather than the caprice of bankers. It required no debt or interest payments. A specific number were authorized **and it was never exceeded.**

"In 1868 [there was] strong sentiment in favor of the retention of the greenbacks as a permanent feature of our monetary system," wrote Bullock.[14]

This currency was very popular among Americans, and very unpopular among bankers, including foreign bankers, who were concerned that their own nations would observe the benefits of a well operated government money system and follow the American example.

To disrupt this progressive system the bankers would launch three deflationary attacks on America.

THE FIRST ATTACK - AGAINST THE GREENBACK BONDS

To help pay Civil War expenses the U.S. had issued bonds that were purchased with Greenbacks and were supposed to be redeemed in Greenbacks, but which paid interest in gold.

Del Mar noted that after about 1 to $1.5 billion worth of these bonds had been purchased by what he called "universal financiers" at half price, they began agitating politically to have them redeemed for gold which was then trading (in 1868) about 30% over the Greenback.[15]

The markets had always treated the bonds as redeemable in paper Greenbacks:

"At the peak of the premium on gold (mid 1864) when railroad bonds were yielding less than 6%, the gold yield on the 6% government bonds of 1881 exceeded 16%....**the bonds were being treated as if they were predominantly paper bonds,**" wrote Friedman and Schwartz.[16]

The soldiers and sailors were paid in Greenbacks for their sweat, blood and shattered bodies. Nearly two-thirds of a million died. But the bondholders, supported by preacher and professor, pretended that the honor of the United States required that they be paid in gold! They agitated and conspired to have the rules changed.

Payment in gold would give the English Baron James Rothschild, his clients, and other bankers, two undeserved benefits: first - the obvious 30% gain; second, the U.S. did not have the gold and would have to borrow it from the only possible source - Baron Rothschild and the other bankers, and their wealthy clients in Europe. The U.S. would then have to pay them interest on that gold loan.

The gold would ultimately be transferred from Baron Rothschild and other bondholders to Baron Rothschild and other bondholders; but the United States people would be financially raped in the process. Our own Government's laws would be manipulated to support this demonstrably pernicious gold money system, helping to keep it dominant over humanity by paying them interest on their sterile gold holdings, which, like the ancient temple cults, they probably hoarded in useless oversupply (see chapter 1).

Since the physical gold would go from the bankers to the bankers, it's clear that what was important to them about gold was not any "intrinsic" qualities, but how they could use it to fleece American society.

We've singled out Baron Rothschild for a reason: it is possible to trace the actions of his intermediary in America (his only primary agent here), August Belmont, in the Greenback political struggle. Belmont was a major factor in the Democratic Party of that day.

## BANKERS SABOTAGE THE DEMOCRATS IN THE 1868 PRESIDENTIAL RACE

In order for the "financiers" to succeed in their attacks on America's money system, it was necessary to sabotage the Democratic Party - the logical defender of the average citizen. The Republicans could already be counted on as the bankers party. The Democratic candidate, Horatio Seymour, was undermined thanks to Belmont's position as Chairman of the party's National Democratic Executive Committee. Belmont had the assistance of Manton Marble's *The World* newspaper in New York, which according to Del Mar was beholden to Belmont financially. We have a unique picture of how this occurred because Alexander Del Mar was a participant in the actual events and recounted them in his book *Monetary Crimes*.[17]

The Democratic Party platform opposed redeeming the bonds in coinage, while their candidate Seymour personally favored it. But the conspirators decided to take no chances and destroyed Seymour. *The World*, according to Del Mar, was seen as the Democrats' paper, specifically pledged from 1867 to support the Greenbacks. Out of the blue, on October 15, 1868, *The World* advised dropping Democratic candidate Seymour, claiming that he couldn't win.

At an emergency meeting of Democratic leaders, called the next day


*18a.* **Alexander Del Mar (1836-1926), the greatest monetary historian of all time. His brilliance was ignored while nonsense was advanced as "political economy" by the English school. Del Mar's monetary concepts provide the weapons needed to protect humanity from the predations of the Adam Smith crowd.**

at the office of the National Intelligencer magazine in Washington, Del Mar, who had been an owner of the magazine, was in attendance. He relates in detail how August Belmont refused to disavow *The World's* article and was inexplicably unavailable - incommunicado - for several days at this crucial moment:

"It was as though the general of a division had gone over to the enemy on the eve of an assured victory," wrote Del Mar.

Seymour still got 2.6 million votes, compared to 2.9 million for Republican Ulysses S. Grant.[18] Grant's first act on taking office in March, 1869 was signing the bankers' so-called Credit Strengthening Act, pledging payment of Government bonds in gold, which his predecessor Johnson had vetoed.

*The World* newspaper then became magically transformed overnight into a hard money publication, supporting conservative candidates in the next election. Irwin Unger observed that:

"In Manton Marble's New York World the eastern conservatives had a powerful propaganda vehicle while August Belmont's Rothschild millions would provide unlimited resources for effective political action."[19]

## THE GREENBACK AND POPULIST PARTIES FORM IN REACTION

When it became apparent that the Democratic Party was blocked from serving as the vehicle for establishing a permanent Greenback system, several new populist parties formed to pursue this goal. Eventually these parties got a majority of the people on their side, but the financiers were able to keep them splintered and dominate the political process with money.

## THE SECOND ATTACK - THE ATTEMPTS TO REMOVE THE GREENBACKS

In December 1865 Treasury Secretary McCulloch had put through a law to gradually retire the Greenbacks (it passed 144 to 6 in the House). The act provided that $10 million of Greenbacks received in payment to the Government would be retired (destroyed) over six months, and up to $4 million more per month thereafter.

Despite the lopsided vote favoring the act, it had been extremely unpopular, since the Treasury should have been moving in exactly the opposite direction: creating more money to ease the extra monetary burden placed on the Union by the re-inclusion of the Southern States' monetary needs in the nation's money system when the Civil War ended.

To make matters worse, instead of acting gradually McCulloch retired no Greenbacks for almost six months and then retired $10 million all at once, creating great distress and causing business failures in the Northern states to skyrocket in 1867:[20]

**Northern Business Failures**

| | | | |
|---|---|---|---|
| 1860 | 2,733 | 1864 | 520 |
| 1861 | 5,935 | 1865 | 530 |
| 1862 | 1,652 | 1866 | 632 |
| 1863 | 495 | 1867 | 2,386 |

McCulloch's pet Act was suspended in February 1868, after $44 million in Greenbacks had been retired, many to be re-issued later.

Even businessmen began to understand. George Morgan wrote:

"Businessmen, generally are awakening to the fact that the real issue is between dead capital on the one side and active capital and labor on the other. They are beginning to understand that specie resumption and bankruptcy mean the same thing."[21]

The New York Board of Trade was organized in opposition to the New York Chamber of Commerce, in order to support the Greenbacks.[22]

The attempt to get rid of the Greenbacks through the law courts failed in 1871 when the Supreme Court, in Knox vs. Lee, ruled that the Greenbacks were legal in wartime. Then in 1884, in Juilliard vs. Greenman, the Court ruled that Congress had the power to create them in peacetime as well.

The financiers also moved politically to force the redemption of the entire $360 million outstanding Greenbacks into gold.

## ENGLAND SENDS "EXPERTS" TO ATTACK THE GREENBACKS

In 1869 Walter Bagehot, an English political economist, wrote a short book published by the *Economist* which pretended to propose a union of American and British currencies. The book reads strangely. Its proposal wasn't meant to be taken seriously; it is mostly fluff:

"First it must be founded on a single standard not a double. Second it must have a high gold unit."[23]

The only points that stand out are the emphasis on gold and the smearing of the U.S. Government. The book's anti-governmental venom is as strident as the 1990s variety. But at that time there was little public debt, no income tax, no welfare and practically no government! So the book's real lesson may be to indicate the largely psychological nature of the attacks on government; attacks supported and on behalf of powerful financial interests.

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."

**Such anthropomorphizing of government, or pretending the government has desires and attributes like a person, is an essential element of the financiers attack on their main potential opponent - our government.**

Another English "expert" sent on tour to befuddle American minds was Bonamy Price, professor of political economy at Oxford University. We met him in Chapter 13, as the former mental patient who was given Thorold Roger's professorship at Oxford, when Rogers proved that Englishmen were in dreadful economic shape. You judge whether Price was rational in this October 1, 1874 interview with the Daily Tribune:[24]

<u>Price</u>: "Inconvertible currency is so vicious, so radically bad that I feel no interest in makeshifts. There is only one step to be taken - amputation.

<u>The Reporter</u>: <u>"That is to say contraction?"</u>

<u>Price</u>: "That is not contraction, but the extinction of inconvertible paper. Anything short of the extinction of the currency is so radically and fundamentally bad that I have no interest in comparing the relative goodness or badness of any expedients."

<u>The reporter:</u> asks Price whether the U.S. Treasury's stoppage on redeeming paper money was not similar to the Bank of England's stopping the redemption of its paper money.

<u>Price</u>: "Ah but the motive is different. The inconvertible currency in your country is a tax. By means of this species of paper [paper money] the government has got hold of the property of the nation, and it has kept it. The property is gone and the public in the place of it has got a species of paper [paper money]. It is the government's business to restore the property."

<u>Reporter</u>: <u>"Who should issue the currency, the government or the banks?"</u>

<u>Price</u>: "Who the issuer is, is of no consequence as to the action of the currency...(and from a later answer:)...I believe the intermediate agency of a private corporation is the true method."

Bonamy Price, an obvious shill for the bankers, doesn't explain why it's a tax and theft of property when the government does it but is not when a private company does it. **Again we see the ploy of treating the government as a person rather than as society.**

## THE FIRST "COMMUNIST" SCARE IN AMERICA

The Republican Party made its first use of the "communist menace" scare in an attempt to panic the voters on October 12, 1875. The *Cincinnatti Daily Gazette* warned:

"A vote for the Democratic ticket is encouragement...to communist revolution."[25]

They accused the Democrats and populist groups of starting class strife. But the literature indicates these folk were only trying to defend against the class warfare that financial elements had already started. The positions taken by the real socialists and communists of the time are very instructive - they attacked the Greenbacks:

"Indeed within the ranks of labor, the only audible sour note came from the socialists. Long opposed to greenbackerism as a mere social palliative as recently as April 1876, they had tried to defeat the Greenback platform proposed at the Pittsburgh National Labor convention..."[26]

The Marxist *Labor Standard* publication attacked the independent Greenback parties:

"The disease from which we suffer is not the want of currency, but a planless system of production."[27]

## THE FINANCIAL COLLAPSE OF 1873

At the end of August, 1873 large amounts of cash were withdrawn from New York banks. Jay Cook's banking house went under on September 18 and the U.S. markets tumbled on September 20. The New York Stock Exchange was forced to close. The collapse was blamed on speculation in railroad stocks:

"The railroad boom collapsed abruptly in the fall of 1873 and hard times settled all over the nation. The blow caught the country by surprise," wrote Unger.[28]

However, the demonetization of silver occurred at that time and major speculators would have understood its deflationary consequences.

With the country reeling from the collapse, on April 22, 1874 an "inflation bill" was passed that would have increased Greenbacks in circulation to $400 million, and national banknote circulation to $400 million as well (from 340 million). But in a surprise move, President Grant inexplicably vetoed the bill and bribery was charged. Unger concluded:

"In a word, the shift of public opinion is not great enough to account for (the veto). Nothing in the press or surviving political correspondence suggests a buildup of hard money strength."

Grant's veto did great damage to the Republican party. They lost control of congress in the 1874 elections and it was this 1874 lame duck congressional session that enacted the Resumption Act to redeem the Greenbacks in gold.

## THE RESUMPTION ACT TO REDEEM GREENBACKS IN GOLD

The original intent was to assert the dominance of gold as the monetary base, but, as finally enacted, the Resumption Act was not a deflationary measure. While Greenbacks would be redeemable for gold, for every $80 of Greenbacks retired, $100 in bank currency was to be issued. The act would substitute bankers' paper notes for the government money.

The act required that on January 1, 1879 the Treasury would redeem in coin all Greenbacks offered in amounts not less than $50. The act limited the number of Greenbacks outstanding to $382 million. It also increased the private banks' monetary powers under the National Banking Act in several ways, primarily increasing the amount of currency they could print, and reducing their reserve requirements.

Yet there was so much popular sentiment for the Greenback that in the 1876 congressional session the Resumption Act looked like it would be repealed.[29]

The Republicans adopted a blocking strategy. Speaker of the House Michael Kerr, after consulting with Manton Marble, packed the Banking and Currency committee and the Ways and Means committee with gold supporters:

"These moves delayed the legislation for weeks. Bills aimed at repeal disappeared into committee pidgeon-holes" and though there was a small majority in the house to repeal resumption, "Attempts to bypass the committees failed repeatedly," wrote Unger.[30]

Finally in late 1877 the House did pass a bill to repeal the Resumption law, but the bill was defeated in the Senate by one vote.

## BORROWING GOLD FOR THE RESUMPTION

It was thought that $120-30 million total gold reserves - about 40% of the outstanding Greenbacks - would be needed for the Resumption. But when John Sherman became Secretary of the Treasury in 1877, the Treasury held only about $25 million in gold.

Sherman was negotiating to borrow a total of $95.5 million in gold, much of it from the European bankers: Seligman Brothers; Morton Bliss and Co.; August Belmont and Co. acting on behalf of the Rothchilds; and Drexel Morgan and Co. representing Junius Morgan of London.

The American bankers became upset at being left out of participation in that syndicate, but they were unable to match the terms offered by the powerful international group. So Sherman signed on with the international syndicate.

During the negotiations when a rumor circulated that President Hayes favored paying the bonds in silver, "The syndicate bankers were frantic at the turn of events," wrote Unger.

THE SAME OLD GOLD STORY

The progress of this bond offering indicates that the syndicate and its clients had far more gold than was useful to them:

"...Although the contract called for only $10 million to be taken in the first month, in 3 weeks some $20 million were sold at above 102, and early in May the syndicate anticipated its June subscription. By the end of May, seven months before the contract expired, the books were closed."[31]

Through most of 1877 gold had been 4% above par, at $104 in Greenbacks for $100 of gold. After March 1878 it was only 12 cents over par. By November, 1878, through these gold bond sales, the Treasury held $141.9 million in gold.

Did the nation really need the foreigners' gold? Or did their gold need the support of our nation, through the passage of laws that gave gold a privileged position? These laws were passed through financial power and bribery against the wishes of a majority of the citizens.

In this episode you can see an element of what we hypothesized in Chapter 1 on the initial monetization of gold by the ancient temple cults, because they held so much of it. **What would the syndicate have done with their gold and its storage costs, if the U.S. couldn't be manipulated to pay them interest on it? *That the U.S. didn't really need any of their gold was soon demonstrated on resumption day.***

THE RESUMPTION IS A NON EVENT

The Resumption Act had designated New York City as the place for the event. The doors of the sub treasury office opened at 10 AM. By close of the business day only $132,000 in Greenbacks were redeemed and $400,000 in gold was deposited for the more convenient bank paper! It was the same story at the banks involved in the resumption - a giant anti-climax.

Some bankers may have believed their own propaganda against the Greenbacks; but the Greenbacks functioned well and had been near parity with gold for some time. **Their good performance was one reason the leading financiers wanted them removed from circulation, as the Greenbacks gave a daily lesson in practical monetary theory.**

The bankers failed in this because in the back-and-forth struggle a law had been passed in 1878 requiring that all Greenbacks that were redeemed must be re-issued, so that theoretically $346 million Greenbacks remain current U.S. money to this day.

## THE 3RD ATTACK - THE "SECRET" DEMONETIZATION OF SILVER

Monetary legislation is often passed under bizarre circumstances, but this episode is among the strangest. While the Greenback battles were raging, silver was quietly demonetized by two laws, a year apart. If one were to read either of the laws separately, you could not tell that silver had been demonetized for payments over $5.

First there was an act of February 12, 1873 which neglected to name the silver dollar as one of the "currently minted" U.S. silver coins, instead substituting the "trade dollar," a special silver coin minted for trade with China. Then in June 1874, there was a revision of the coinage laws, a long act with 67 parts. Section 3,586 contained a phrase pertaining to all silver coinage not specified in the 1873 law as "currently minted:"

"The ['other'] silver coins of the United States shall be legal tender at their nominal value for any amount **not exceeding $5** in any one payment."

## THE "DISCOVERY" OF THE "CRIME OF 1873"

Incredible as it may seem, the fact that silver coinage had thus been demonetized did not become generally known to the nation for almost two years when on March 2, 1876, George Weston's letter to the editor of the *Boston Globe* pointed it out! An uproar soon arose over the "Crime of 1873."

Apparently even President Grant was unaware of what had happened. Del Mar noted:

"The most striking evidence of the public inattention to the effect of the coinage act of 1873, is that President Grant who signed it, had no knowledge of what it really accomplished in demonetizing silver and was still uninformed as late as October 3, 1873, as proved by his letter ...(in which) he wonders why silver is not brought to the mints and

*18b.* **Parisian banker, Henri Cernuschi, the brilliant monetary thinker, was probably responsible for helping Del Mar get off the false path of metallism, and concentrate on the legal nature of money. The honesty, accuracy and foresight of Cernuschi's testimony to the 1876 U.S. Monetary Commission made a very deep impression upon the young Del Mar.**

coined into money!"[32].

Supporters of the act insisted that the laws were passed openly. Bullock wrote:

"After deliberating upon the subject during five consecutive sessions and securing expert advice, Congress passed the 'act of 1873.' This law…dropped the obsolete silver dollar from the list of authorized coins. Its deliberate intention as stated repeatedly in Congress was to establish legally the single gold standard. In 1876 it was discovered that a crime had been committed in 1873."[33]

William G. Sumner, playing a word game with the $5 limit wrote:

"The law of 1873 never threw a dollar of silver or other currency out of circulation. We hear it asserted that 'demonetization' destroyed half the people's money...no one of the other demonetizations, which took place in Europe at about the same time, diminished the money in use."[34]

But the $5 limit meant silver could be refused for any commercial transactions. Gold or paper money would have to be found for payment, and their value would be enhanced. In 1873 there was about $14 million in silver coinage and about $63 million in gold coin circulating. But there were also about $346 million Greenbacks circulating, along with at least $600 million in bank created paper money and deposits (including $329 million in national bank notes, and $1.4 million in state bank notes, according to official government statistics, Series X 410-419).

**The amounts of silver involved may not seem significant, but it was important in the context of the requirement to make Greenback bonds, and later the greenbacks themselves, payable in "coinage," which would now mean only gold coinage,** because it removed the possibility to mine new silver ore to be coined and used for the debt and redemption payments.

Del Mar wrote:

"The silver dollar was dropped purely and simply to enhance the value of the gold dollar and thus to double the debt of the American people. This was the motive and there was no other motive. The proof is that the very same men, I mean the identical individuals, who betrayed their party in 1868 and who doubled the public indebtedness by promoting the act of March 1869, assisted to again double the debt by promoting the surreptitious mint codification act of February 12, 1873, and June 1874...though Congress was assured by its revision committee that no new matter had been introduced in them. The legislation of 1865-1874 was no academic experiment but a sordid crime hatched abroad and brought into this country by the treacherous people who governed the utterances of the New York World [newspaper]."[35]

Del Mar is referring to August Belmont, Manton Marble, and their financial backer, Baron Rothschild.

## THE 1876 U.S. MONETARY COMMISSION INVESTIGATION

Del Mar, who had been in charge of the U.S. Bureau of Statistics, organized the 1876 U.S. Monetary Commission to investigate the demonetization, receiving testimony from a worldwide group of experts. The wisest was Henri Cernuschi (1821-1896), a Parisian Jurist and banker, who had studied at the University of Pavia. Cernuschi was the inventor of the term "bimetallism." Parts of his testimony sum up the common sense view of the situation:

"The act when passed was not read except by title...carried through without the knowledge or observation of the country...it was neither demanded by the resolutions of public meetings or political conventions nor asked for in petitions from the people ... The press of the country was entirely unobservant or silent when it was pending, and when it passed. If it had been generally known that any such vital question as the demonetization of silver was lurking in the bill it would have aroused the most wide spreading discussion throughout the country...No adequate or satisfactory reasons for the enactment of the laws of 1873-74 de-monetizing silver, have ever been given."[36]

In stark contrast, August Belmont's "testimony" for the commission was a paltry one page letter that bordered on contempt. He ignored the issue, saying that gold, being the standard of value, cannot rise or fall, and its abundance or scarcity causes a rise or fall in all other prices. He told them to get better statistics from someone else. He blamed the fall of silver to its being demonetized abroad, and then concluded that our problems were local, and the market collapse of 1873 resulted from over-trading in railroad stocks.[37]

## THE CRIME OF 1873 IS A HOT ISSUE FOR DECADES

Emotions on the issue were so strong that the debate lasted well into the 1890s! Innumerable books and pamphlets flooded the country. Most popular was *Coin's Financial School*, by W. H. Harvey, which sold an amazing 250,000 copies. In the book, Harvey's fictitious lecturer, Mr. Coin, attacked economists, bankers and professors by name so forcefully, that a number of them actually answered in the press.

Harvey viewed England as the source of the problem:

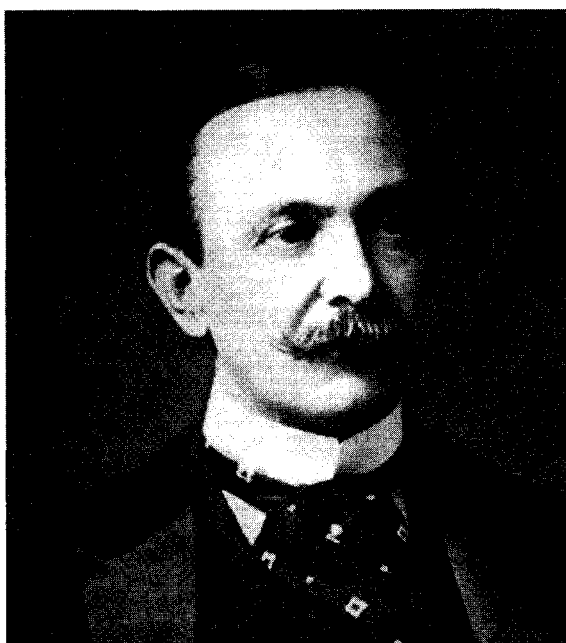
"Whenever property interests and humanity have come in conflict, England has ever been the enemy of human liberty…(If our silver coinage cannot succeed) let us attach England to the United States and blot her name out from among the nations of the World...If England wages a war on humanity, the U.S. should declare an industrial war on England," and so on.[38]

Harvey believed the U.S. could monetize silver alone, against the world, and that France would follow us. But he was dead wrong.

ENGLISH INTERFERENCE WITH THE U.S. MINT LAWS

Harvey and others were furious when it was somehow discovered that in 1872, Hooper, Chairman of the Committee on Banking and Currency, sent a copy of the proposed U.S. coinage bill to Alfred Latham, Chairman of the Bank of England, for comment from one of his employees, Ernest Seyd.

Seyd had written a book on the subject called *Suggestions*. For some reason he ended up in America, being accused by anonymous writers who made unsubstantiated claims that Seyd admitted to having brought 100,000 pounds with him to bribe Congress! As late as 1893 silver advocates in Congress focused on his supposed activities against silver,



*18c.* **August Belmont (1816 - 1820), the main representative of the Rothschild interest in America, was at the center of several major monetary/political schemes to harm the general population and favor the financiers, over a period of about two and a half decades. His testimony to the 1876 U.S. Monetary Commission bordered on contempt.**

of 20 years earlier, without coming up with anything concrete. Reading the Congressional Record, 53rd Congress, August 18, 1893, p. 474-76, 584-89, and p. 1059, it looks like a lot of smoke; which is not to say that Seyd was not purposely provocative, possibly an agent provocateur.

THE SILVER DIVERSION

Readers will note that we are no longer on our central issue, but are arguing silver. Now that's exactly what happened to the populists also!

Consider how the silver issue was used to derail the populists, and obscure the real monetary question of who should control the money system - private bankers or the government. Monetary control had been the main focus of the Greenback movement. **It is not out of the realm of possibility that the outrageous method of silver demonetization was a calculated move to enrage and disrupt and derail the movement. The "secret" demonetization of silver was like the matador waving a red flag in front of a bull. After all, the U.S. had coined roughly only 8 million silver dollars from 1792 to 1873.**[39]

This silver diversion had two main effects:

1)It shifted the focus away from the real monetary issue, which was who should control the money system, into useless arguments over bimetallism.

2) America would re-monetize silver, walking into a well-laid monetary trap.

AMERICA RE-MONETIZES SILVER AGAINST THE WORLD

Cernuschi had warned them in his testimony:

"In my opinion no country can coin silver alone...it is better to maintain the paper-money (Greenbacks) than to issue a national currency of silver, if the other nations do not use that metal as money."

But even the young Alexander Del Mar was swept up in the outraged emotion created by the "Crime of 73," and he drafted the silver re-monetization bill. It led the U.S. Government into a highly ill-advised policy of re-monetizing silver against the World, while the U.S. was already committed to redeem bonds and Greenbacks in gold.

The Bland bill of February 16, 1878 to re-monetize silver passed 205 to 72. It called for the coinage of from 2 to 4 million dollars per month of new silver dollars. President Hayes' veto of the bill was overridden. This law by itself wasn't so dangerous to America, because the new silver could come from American mines, rather than Europeans unloading their recently demonetized silver hoards. Over $378 million new silver dollars were coined through the Bland Allison Act; close to the number of Greenbacks outstanding.

But the 1890 Sherman Act was a different matter. It required the U.S. to purchase 4.5 million ounces of silver per month. That was about 17 million more ounces per year than American mines could produce.

The Sherman Act thereby allowed European financiers to exchange their abundant demonetized silver hoards for American gold at the fixed artificially advantageous price of the American 16 to 1 gold/silver ratio, about $1.29 per ounce of silver. The U.S. paid for the silver with Treasury notes, which the Europeans quickly redeemed for gold. Furthermore, as the process went on, America would be forced to borrow back the same gold at interest, to meet continuing European redemption of notes and bonds and silver, for gold! This drastically pressured the Treasury's gold reserves:

"The withdrawal of gold from the U.S. Treasury pursued an almost uninterrupted course from the moment of the enactment of the Sherman silver law until the outbreak of the (1893) panic," wrote Charles A. Conant. The net gold exportations were: 1891 - $68.1 million;
1892 - only $ .5 million; 1893 - $87.5 million.[40]

At an 1892 monetary conference, at which the U.S. was urging bimetallism, Alfred de Rothschild attempted to fleece European governments as well as American. He proposed that European states buy £5 million of silver annually, on condition that the Americans continue to buy 54 million ounces per year! The plan was not accepted.[41]

The U.S. failed to prod France or any other European nation into remonetizing silver. All hope of accomplishing this ended in May, 1893, when the British Government in India ceased the free coinage of silver, which closed the market for one-third of the silver production of the world.

It took three years for America to repeal the Sherman Act, in 1893, after $147 million in silver had been purchased. Sherman had to go back to his European syndicate for more gold loans, which came into and left the U.S. as through a revolving door. The passage of the act has always been blamed on American silver mining interests, but some of its main beneficiaries were European bankers. Without the support of the law, the market price of silver dropped to 60 cents an ounce in 1893 and 49 cents in 1894.

## THE WORLDWIDE PANIC IN THE 1890s

Concurrent with these silver antics was the collapse of Baring

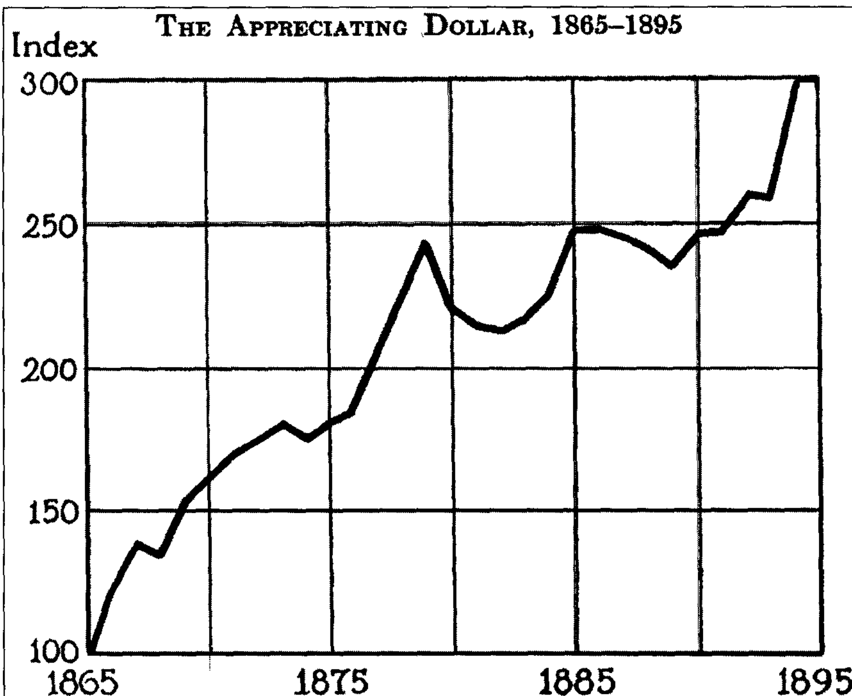
Brothers of London in 1890, due to their foolish speculations in Argentina. Its ripple effect eventually caused distress in all the world's financial centers, including the U.S. in 1893.

An example of how economists really are "pests" is the spin that Charles Conant put on this event, blaming American politics for the effects of Baring's South American fiasco:

"U.S. railways, breweries, cattle ranges and public securities were heavily in debt to Europe...This debt was estimated at over $2 billion, requiring $350 million of annual interest...The withdrawal of a large portion of this productive loan (the withdrawal of gold from the U.S. Treasury) was the price which the U.S. were called upon to pay for the political maneuvers which aroused the fear they would abandon the gold standard and make silver the basis of their monetary system."

THE U.S. MONEY DROUGHT: 1860s - 1890s

For all these reasons the post-Civil War period in America (and




*18d.* **1865-95 *DOLLAR DEFLATION*. The value of the dollar rose about 200% over a 30-year period against agricultural products; a condition that farmers understood well, but which was, and still is, denied by some economists (source: J. D. Hicks: The Populist Revolt).**

abroad) was one of too scarce a money supply for a period of two-and-a-half to three decades. Population, railroads, mechanization and production were growing as the industrial revolution progressed and more land was cultivated. Yet by many yardsticks, money was too scarce.

Some economists have claimed that there was no deflation, just overproduction. But that sounds like banker apologia. There was still great poverty in America and overproduction should have alleviated it. Every farmer knew the value of money was increasing.

Anecdotal evidence was sufficient for Benjamin Anderson, an important early 20th century monetary theorist, to conclude that a punishing deflation had occurred:

"Nor is the tremendous agitation over bimetallism, involving a literature so great that no man could dream of reading it all, involving great political movements, presidential campaigns, great congressional debates, repeated legislation, international conferences, etc, for 20 years, to be explained on any other ground than that the world felt practical, important, and unpleasant effects on industry and trade from the inadequacy of the money supply."[42]

By one index, the dollar appreciated in value from 100 in 1865 to about 300 in 1895. This index was derived from the statistics of the Aldrich Report (see next chapter) and the U.S. Bureau of Labor.[43]

Later, Friedman and Schwartz's study established the monetary facts statistically:

"(Between 1867-1879) there are 5 calendar years in which the money stock declined and 7 in which it rose…The money stock in February 1879 was only 17% above its level 12 years earlier…One must go more than half a century forward from 1879 all the way to 1933 to find another 12 year period within which the money stock declined in as many as 5 calendar years."[44]

**This money supply *increase* of only 17% over 12 years, or about 1.4% a year, during a period of very high growth in population and in economic activity, must be considered *deflationary.***

This important example underscores the principle that it is not the absolute amount of money in existence that measures inflation or deflation, but the amount relative to population and economic activity, which the money must service. The money supply must be compared to how much money there should be for optimal results. Nor is it accurately measured by price levels - the mistake the Federal Reserve System has been making since at least 1987, when Allan Greenspan became its Chairman.

How will the optimal amount be determined? This is something yet to be discovered, once the question has been sufficiently studied under a governmentally issued money system. This question should be among the top items on the agenda of economic science.

THE GREENBACK LEGACY CONTINUED

The machinations of the bankers could not hide the truth from most Americans. The people were not fooled, so much as they were overpowered! Henry George, an important 19th century reformer, wrote:

"It is not the business of government to direct the employment of labor and capital..."***On the other hand it is the business of government to issue money***...To leave it to every one who chose to do so to issue money would be to entail general inconvenience and loss, to offer many temptations to roguery, and to put the poorer classes of society at a great disadvantage...."

"Yet instead of doing what every public consideration impels us to, and assuming wholly and fully as the exclusive function of the General Government the power to issue money, the private interests of bankers have, up to this, compelled us to the use of a hybrid currency, of which a large part, though guaranteed by the General Government, is issued and made profitable to corporations. The legitimate business of banking - the safekeeping and loaning of money, and the making and exchange of credits, is properly left to individuals and associations; but by leaving to them, even in part and under restrictions and guarantees, the issuance of money, the people of the United States suffer an annual loss of millions of dollars, and sensibly increase the influences which exert a corrupting effect upon their government."[45]

**In Summary**

The purposely executed 19th century deflations, generally demonetizing silver in favor of a gold standard, began in England and proceeded under English influence. These silver demonetizations demonstrated the utter insincerity of the metallists theoretical positions on the nature of money. The 1868 presidential election gave us a glimpse of how the bankers operated behind the scenes to neutralize the Democratic party, in effect splitting the nationwide majority that favored the Greenbacks into several populist parties. England continued sending "experts" to influence monetary matters and especially to attack the Greenbacks.

The great importance of a correct concept of money was evident in how the populists were diverted onto the silver question, away from the main issue of societal control of the money system. This false silver issue was nursed along by bankers and mining interests, derailing real monetary reform. And again we saw the great importance placed by the bankers on removing the American Greenbacks from the view of the world.

### *Notes to Chapter 18*

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[10] see John Roberts, *Mitsui, Three Centuries of Japanese Business*, (New York: Weatherhill, 1973).

[11] Alexander Del Mar, *Monetary Crimes*, (Washington DC: Del Mar Soc., 1899).

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[14] Charles Bullock, *Monetary History of the U.S.*, (New York: Macmillan, 1900), pp. 90-100.

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[16] Milton Friedman & Anna Schwartz, *A Monetary History of the U.S. 1867-1960*, National Bureau of Economic Research, Princeton Univ. Press, 1971), pp. 45, 72.
[17] Del Mar, *Monetary Crimes*, cited above, p. 62.
[18] Del Mar, *Monetary Crimes*, cited above, contains his eyewitness account over several sections.
[19] Irwin Unger, *The Greenback Era*, (Princeton Univ. Press, 1964), p. 85.
[20] Charles B. Spahr, *The Present Distribution of Wealth in the United States*, (Boston: T. Crowell, 1896), p. 37.
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[26] Unger, cited above, p. 315.
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[28] Unger, cited above, p. 213.
[29] Unger, cited above, p. 289.
[30] Unger, cited above, p. 290-291.
[31] Unger, cited above, Chapter 10.
[32] Del Mar, *Monetary Crimes*, cited above, pp. 84-6.
[33] Bullock, cited above, Section on the Greenbacks.
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[35] Del Mar, *Monetary Crimes*, cited above, p. 86
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[43] John D. Hicks, *The Populist Revolt*, (Univ. of Nebraska Press, 1961), p. 88.
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# CHAPTER 19

# TRIUMPH OF THE BANKERS: ESTABLISHMENT OF THE FEDERAL RESERVE SYSTEM

"The bankers will favor a course of special legislation to increase their power...They will never cease to ask for more, ...so long as there is more that can be wrung from the toiling masses of the American People."
Peter Cooper to Ulysses Grant
June, 1877

The Greenback battles of the 1860s and 1870s were the "real thing." For the first and only time in our history, the primary secular problem of American society was being accurately attacked: the private control of the money system and the special privileges that elements of society - the bankers - had usurped for their personal benefit at society's expense.

The earlier attacks by Jefferson were accurate, but hadn't reached that level of popular participation. The programs of Jackson and Van Buren had much more popular support but lacked an accurate solution, and erroneously instituted a system more dependent on metal.

In contrast, the Greenbacks were (and still are) a viable solution to a large part of America's monetary problems. They are a method of creating money without interest costs or debt, and without alienating the control of the money system from the government of the people. However, by the 1880s and 1890s the battle lines had already been skilfully shifted into "side show" arguments over silver and bimetallism. Then, with the establishment of the Federal Reserve System in 1913, serious discussion of who should control the nation's money system became almost impossible to carry on in the American mainstream.

## POPULISM - BAGGED BY THE BANKERS

One reason for populism's failure was its diversity, with various interests from different parts of the country. Populists didn't always share common goals and could be divided and discouraged. They didn't fully recognize the deviousness of their opponents. Furthermore, as average people they were always in need of money and their political activities reduced their meager resources.

The bankers on the other hand were more closely knit with a narrowly defined objective. Elements among them could draw on centuries of recorded experience in European court intrigue. Most importantly, the bankers' treachery was self financing.

In one sense the populist movement was a rising of the victims of a financial oligarchy, against their oppressors; the victims of usury rising against the usurers - defining usury in its macro sense as "a misuse of society's monetary mechanism for illicit gain."

## BELMONT "FACTOR" SPLITS THE DEMOCRATS

The very existence of a populist movement demonstrated a fatal political weakness. The presence of August Belmont, Baron Rothschild's American agent, in the top echelons of the Democratic party would be enough to keep the Democrats from becoming the logical focal point for the popular forces on the crucial Greenback issue - the control of the nation's money system.

This neutralizing of the Democrats was of pivotal importance. For had they solidly embraced the Greenbacks, as they logically should have, these splinter parties would never have formed and the nation-wide-majority which in fact existed for the Greenbacks could have found a more powerful and possibly successful expression through the Democratic Party.

## HIGHLIGHTS OF THE GREENBACK MOVEMENT

This chronological summary briefly highlights some monetary events of the diverse movement:

*1872 - The National Labour Reform Party demanded an irredeemable paper currency issued by the Government, "directly to the people."

*1876 - The National Independent Party was organized for the presidential election and nominated Peter Cooper at their Indianapolis convention. Cooper, a civil engineer, was one of the first major industrialists with an outstanding reputation of supporting labor as well. He was eighty five years old and was to resign in favor of his Vice President. After losing the election, Cooper sent an open letter to President Grant on the Money Power:

"This bondage has its manifold center and secret force in more than 2,000 banks that are scattered throughout the country...Such a power of wealth, under the selfish instincts of mankind, will always be able to control the action of our government unless that government is directed by the strict principles of justice and of the public welfare. *The bankers will favor a course of special legislation to increase their power... They will never cease to ask for more,...so long as there is more that can be wrung from the toiling masses of the American People....The struggle with this money power has been going on from the beginning of the history of this country.*"[1]

*In Chicago, an "Independent Greenback Party" organized Cook County ward by ward. The agitation for a permanent Greenback currency reached a climax in the congressional elections of 1878. After 1880, interest began to wane in the face of political defeats dealt to it by the scandal ridden Grant Administration, from the sheer exhaustion of battle, and by being diverted on the false silver issue.

*1884 - General Benjamin F. Butler ran for president on a paper money platform (see Chapter 15).

*1892 - The "Peoples Party" nominated James B. Weaver as their presidential candidate. He received over 1 million votes, and called for the government to issue a national currency at $50 per capita of population; this money was to be paid out for public improvements and loaned to citizens at 2% interest.

*March 1893 - General Jacob Coxey of Massillon, Ohio marched on Washington with thousands of the unemployed. "Coxey's Army," as it was called, demanded that the government issue $500,000,000 in non interest bearing legal tender notes (Greenbacks), to employ 4 million men in the construction of roads. Coxey's monetary theory appears sound and his implied threat of force was justified, but he didn't carry through his thinking to its logical conclusions in terms of his personal security. The Washington police force was able to arrest him for walking on the grass at the Capitol building!

## THE 1896 WILLIAM JENNINGS BRYAN CAMPAIGN

The Democrats had been kept confused on the money issue. For example in the 1876 Presidential election, they nominated a "hard money" advocate (Tilden) for President and a "paper money" supporter (Hendricks) for Vice President.

When the Democratic Party finally made the money issue their main thrust, it was done on the false silver question and in a manner the bankers could live with. John D. Hicks, in *The Populist Revolt*, noted that the populist groups learned in the Presidential elections of 1892 that their silver plank was the most popular position. It was concrete and easy to understand, and the "Crime of 1873" aroused strong emotions.

Thus William Jennings Bryan's 1896 and 1900 Democratic campaigns concentrated on the issue of silver coinage, even though Bryan's speeches indicate that he personally knew more about the nature of money:

"Man is the creature of God and money is the creature of man. Money is made to be the servant of man and I protest against all theories that enthrone money and debase man."[2]

"The right to coin money and issue money is a function of the Government. It is a part of sovereignty and can no more be delegated with safety to individuals, than we could afford to delegate to private individuals the power to make penal statutes or to levy taxes."[3]

Free coinage of silver arguments dominated the 1896 Presidential election:

"City dailies...were forced by an irresistible public demand to give liberal space to discussions of the money question," wrote Hicks.[4] By this time the various populist parties had managed to elect only 6 Senators and 25 Congressmen. The populists backed Bryan.

## BRYAN'S "CROSS OF GOLD" SPEECH

William Jennings Bryan had gone into the Democratic Party's convention relatively unknown and emerged as a national figure thanks to his famous "Cross of Gold" speech, which ended like this:

**"If they dare to come out in the open field and defend the gold standard as a good thing, we will fight them to the uttermost, having behind us the producing masses of this nation and the world. Supported by the commercial interests, the laboring interests, and the toilers everywhere. We will answer their demand for a gold standard by saying to them: You will not press down upon the brow of**

**labor this crown of thorns. You shall not crucify mankind upon a cross of gold."**

Bryan stood before the hall with his arms outstretched as a cross, his head tilted to the side toward his shoulder. For a long moment there was a stunned silence, and then an uproar, and he was nominated. It was one of the great moments in American political history.

In two weeks Bryan, the great orator, visited two-thirds of all the states giving 400 speeches. Nothing like it had been seen before. The campaign became known as the "Honest Money Campaign."

But in reality the campaign offered the American people a choice

*19a.* **William Jennings Bryan supported coining more silver money in his 1896 run for the Presidency. Later his support was crucial in passing the Federal Reserve Act, and later still, he deeply regretted that fact.**

between two systems, either of which could be controlled by the bankers. As Henry George had pointed out:

"...Gold and silver are merely the banners under which the rival contestants in this election have ranged themselves. The banks are not really concerned about their legitimate business under any currency. ***They are struggling for the power of profiting by the issuance of paper money, a function properly and constitutionally belonging to the nation.***"[5]

The main difference was that Bryan's proposals would mean more silver money in circulation. That at least was a good thing as money was too scarce. However, remember that the nation had before it the successful example of a superior money system: the Greenbacks. Thus Bryan's Democratic campaign was a major retrogression from the positions of the Greenback parties.

DECENTRALIZATION REDUCES SOME PROBLEMS

Populist fervor was not only diffused by their defeats and the silver diversions but was also reduced because some of the problems they were protesting were actually improving.

The historian Gabriel Kolko, in *The Triumph of Conservatism* makes the case that the economy was becoming less centralized; crops were good and their prices were improving; and the continued availability of new land and influx of immigrants spurred growth.

Industrial production itself was becoming more decentralized. For example, in 1890, ten industrial stock issues were quoted in financial journals. In 1893 there were thirty, and in 1897 there were more than two hundred.[6]

Furthermore, much of the manufacturing was potentially independent of the banks. According to Kolko, between 1900 and 1910 about 70% of new manufacturing funds were generated internally from profits, not from borrowing.

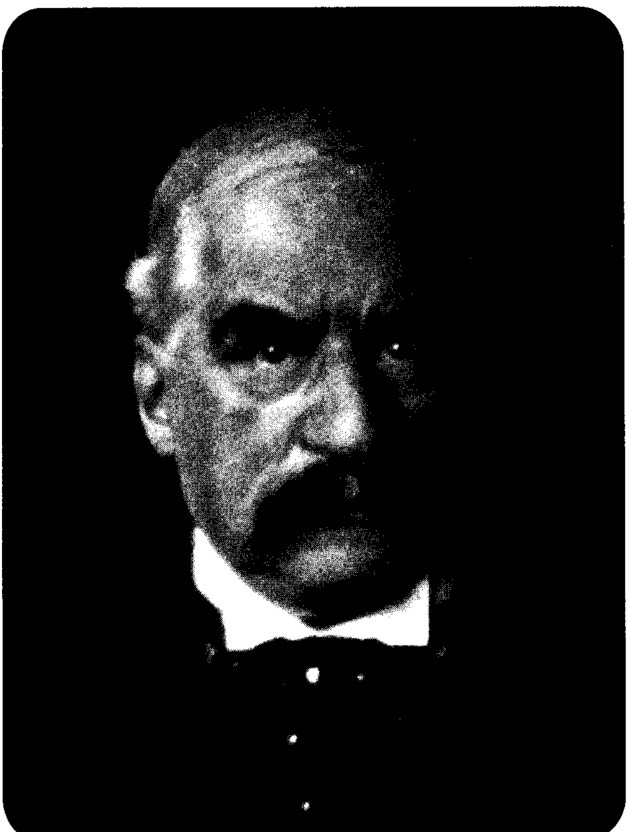
While there would be some overlap between the financial operators and the manufacturers, there is an essential distinction between the two. It takes a different kind of mind for an entrepreneur like Peter Cooper to build real industries and produce real products, than for a financial operator such as Morgan to manipulate paper claims and for the most part create nothing, functioning as a parasite.

At the turn of the century, the Morgan interests were promoting centralization through mergers. While economists once justified these combinations as rationalizations of industry, almost no one, Kolko asserts, "could consider them that, now" (times and attitudes since Kolko wrote have retrogressed dramatically back to the earlier view!).

The mergers were mainly a way to sell watered down [diluted] stock. Morgan's method was to overcapitalize the companies and take large underwriting fees in the process of selling the stock to the public. The Morgan interests would then gain control of the boards of directors of the new entity through the merger process. For example, in 1908, out of 183 industrial mergers, stocks and bonds of $3.085 billion were issued based on capital worth only $1.459 billion.[7]

As in the present day, the short term outlook dominated stock market activity:

"Insofar as Morgan's profits were not immediate or short range, but tied to the managerial and profit performance of the new company, Morgan tended to do relatively poorly," wrote Kolko, "The new mergers, with their size, efficiency and capitalization were unable to stem the



*19b.* **J.P. Morgan, American plutocrat, began his career by selling defective rifles back to the government in the Civil War, after purchasing them as discounted damaged goods from the government.**

tide of competitive growth. Quite the contrary! They were more likely than not unable to compete successfully or hold on to their share of the market, and this fact became one of utmost political importance."[8]

### THE GROWING COMPETITION

Bankers tell us that competition is a hallmark and requirement of the capitalist system. That's what they say and what they pay professors to profess, but not what they do. They demand that others compete to better serve them but abhor competition for themselves. Then they concentrate on corrupting governments into legislating special privileges for them. Yet competition and decentralization was even increasing in the field of banking at the turn of the century. By 1892 state chartered banks surpassed nationally chartered banks in importance. The national banks' share of business continued to decline from that point:

| Year | State banks accounted for: |
|---|---|
| 1896 | 61% of total # of banks and 54% of total bank resources. |
| 1913 | 71% of total # of banks and 57% of total bank resources.[9] |

In 1908 national bank notes represented only 20% of the total circulating currency.[10] The number of banks grew from 10,000 in 1900 to 25,000 in 1912.

Still, the New York banks controlled about one-half the total deposits. Furthermore, because the national bank law wisely limited their loans to any one borrower to 10% of the banks capital, in 1912 there were only 12 banks capable of making loans over $1 million to any one firm.[11]

### GOLD AND TECHNOLOGY DISCOVERIES BRING RELIEF

Toward the end of the 19th century the worldwide need for more money in the existing mixed system of metals, bank created paper and credits, and government created money was alleviated by some fortunate developments: major gold discoveries in South Africa, Alaska and Australia; and the invention of the Cyanide leaching process which extracted a lot more gold from the crushed rock. Annual gold production more than doubled in only eight years:[12]

| | | | | |
|---|---|---|---|---|
| 1890 - | 5.7 | million | ounces of gold | produced |
| 1896 - | 9.8 | " | " | " |
| 1898 - | 13.9 | " | " | " |

It is difficult to accurately estimate the amount of coinage in existence, because often the same precious metal gets coined and re-coined by more than one country's mint. Del Mar estimated the gold and silver coinage available country by country, and concluded that the world's total grew from \$3.7 billion in 1879, up to \$6.34 billion in 1899.[13]

## CURRENCY ACT OF 1900

This law established the single gold standard in the U.S. at \$1 = 25.8 grains of gold. The deflationary effects normally to be expected from

### *19c.* DEL MAR'S TABLE OF GOLD AND SILVER COINAGE (source: Del Mar; History Of The Precious Metals)

STOCKS OF METALLIC MONEY IN VARIOUS COUNTRIES

*Table showing the Population and Stock on Hand in public depositories and in circulation, of Gold and Silver coins and Bar Bullion, in the Roman and Oriental Worlds, at dates nearest to 1879 and 1899, respectively. Population in millions; sums of coins and bullion in millions of dollars. In the Roman world the silver is computed at the mint value; in the Oriental world at the market value.*

| Countries | 1879 Pop. | 1879 Gold and Silver | 1899 Pop. | 1899 Gold | 1899 Silver | 1899 Total |
|---|---|---|---|---|---|---|
| France | 37 | 1020 | 39 | 1100 | 500 | 1600 |
| United Kingdom | 34 | 520 | 40 | 400 | 100 | 500 |
| German Empire | 44 | 400 | 52 | 500 | 200 | 700 |
| Russia in Europe | 74 | 250 | 130 | 750 | 250 | 1000 |
| Russia in Asia | 8 | 25 | | | | |
| United States | 49 | 250 | 75 | 600 | 517 | 1117 |
| Mexico, | 10 | 60 | 13 | 3 | 97 | 100 |
| Other Independent States in America | 36 | 50 | 41 | 14 | 40 | 54 |
| Canada | 4 | 30 | 5 | 20 | 20 | 40 |
| Spain | 17 | 170 | 19 | 35 | 35 | 70 |
| Portugal | 4 | 55 | 5 | 5 | 18 | 23 |
| Austro-Hungary | 37 | 80 | 46 | 120 | 100 | 220 |
| Italy | 27 | 40 | 32 | 50 | 40 | 90 |
| Netherlands | 4 | 60 | 5 | 30 | 50 | 80 |
| Belgium | 6 | 85 | 7 | 30 | 40 | 70 |
| Switzerland | 3 | 10 | 3 | 10 | 8 | 18 |
| Greece | 2 | 10 | 2 | 1 | 5 | 6 |
| Sweden | 4 | 10 | 5 | 13 | 7 | 20 |
| Norway | 2 | 5 | 2 | 5 | 2 | 7 |
| Denmark | 2 | 5 | 2 | 15 | 5 | 20 |
| European Colonies | 10 | 50 | 16 | 40 | 40 | 80 |
| Egypt | 7 | 20 | 9 | 15 | 10 | 25 |
| Turkey in Europe | 5 | 25 | 5 | ? | ? | 25 |
| Roumania, Servia and Bulgaria | 11 | | 11 | ? | ? | |
| Turkey in Asia, and Tripoli in Africa | 17 | 25 | 17 | ? | ? | 25 |
| Total Roman, | 454 | 3255 | 581 | — | — | 5890 |
| India | 295 | 250 | 297 | 5 | 250 | 255 |
| China | 120 | 40 | 120 | — | 35 | 35 |
| Japan | 40 | 50 | 45 | 25 | 30 | 55 |
| Siam | 5 | 5 | 5 | 1 | 4 | 5 |
| Other Oriental | 75 | 100 | 75 | — | — | 100 |
| Total Oriental | 535 | 445 | 542 | — | — | 450 |

such a move did not materialize because the production of gold had more than doubled from 1890 to 1898.

When gold enthusiasts refer to the sound workings of a gold standard in this period, they ignore that it was a highly unusual time for gold production, where the supply of gold available for money grew much faster than the population, rather than at its usual inadequate historic rate of under 1.2% per year.[14] They also ignore that the supply of gold was augmented by paper notes and deposits issued by banks and government.

## TREASURY SECRETARY SHAW'S INNOVATIVE SOLUTIONS

Though the U.S. had been independent for 125 years, there was still no uniform currency system, and there was no structural flexibility whereby the banking system could easily adjust to changing economic conditions.

From 1902 to 1906, Treasury Secretary Leslie M. Shaw faced a banking system that was limited and inflexible. Nationally chartered banks were allowed to create only about $800 million in currency, based on their holdings of government bonds as reserves or collateral. The system could not respond well to real business needs or even to the necessary seasonal requirements for money. There was no lender of last resort when the banks got into trouble and the system was susceptible to booms and panics over minor events.

Shaw wanted to change the banknotes to read that they were guaranteed by the government, since in effect they were. He also proposed implementing what became known as the real bills doctrine, then used in Europe, where banks could finance industry based on commercial paper guarantees.

Shaw initiated a program to avert banking panics by depositing government funds or bonds into banks when money was tight. Then, to calm down boom periods, he would withdraw them.[15]

"In his final report to Congress, written at the end of 1906...he wrote:

'If the Secretary of the Treasury were given $100 million to be deposited with the banks or withdrawn as he might deem expedient, and if in addition he were clothed with authority over the reserves of the several banks, with power to contract the national bank circulation at pleasure, in my judgment no panic, as distinguished from industrial stagnation could threaten the U.S. or Europe that he could not avert...'

"If [the Treasury's powers] had been expanded as Shaw requested, the Treasury would have been clothed with effective power different, but not clearly inferior to that later assigned to the Federal Reserve System," wrote Friedman and Schwartz.[16]

THE POSTAL SAVINGS SYSTEM

Another solid banking initiative was inaugurated by the Post Office in January 1911. The Postal Savings System offered savings accounts to depositors, operating as a deposit bank and making no loans, like the theoretical operation of the Bank of Amsterdam.

The Postal Savings system became popular. It held 4% of the nation's savings in 1919. This declined to 2% in 1929, but rose to 13% in 1933 and to 20% in 1947. By the end of 1960 it was back down to 2%. The percentage declined just before the 1929 crash, perhaps because of the aggressive atmosphere of the times. The rise into 1933 might indicate a flight of depositors to safety, and the continued growing share to 1947 could indicate that distrust of the banking system extended long beyond the Depression.

BANKERS THWART SOCIETAL SOLUTIONS: PANIC OF 1907

Our thesis would predict that Shaw's balanced approach in the hands of Government would be unwelcome to those seeking to make a business of manipulating the money system. In 1906 Jakob Shiff was a partner of Kuhn Loeb, agent for the Rothschild's American interests. Shiff and others (including Shaw) publicly warned that the U.S. would face its worst financial crisis. These warnings foreshadowed the Panic of 1907.

The hidden source of the panic of 1907 was the Bank of England's instruction in September 1906 to British banks not to negotiate American finance bills but to have them all paid in gold as they matured. There was also a crisis situation in banking in Amsterdam and Hamburg.

The result was that about 1% of the U.S. gold supply was shipped abroad, causing a decline in the total U.S. money supply of about 2 ½ %. This was enough to generate the banking panic of October 1907.[17]

But it was an unusual panic: "The Panic of 1907 was exclusively banking," wrote Studenski and Kroos.[18]

The banks refused to honor their deposits - to pay out cash to their depositors; however, all of their other financial operations continued normally. It was a manufactured, unnecessary panic. The major New York City Banks were later criticized for restricting their payments while their reserves were still adequate, and for delaying the issue of clearing house loan certificates to the banking community:

"The six large banks (in NY) acting in concert could have sustained the local situation...and could have supplied the demands of outside banks," wrote Sprague.[19]

The stock market took a major tumble, dropping 46%.

Thus by forcing the export of only 1% of the U.S. gold, foreign bankers purposely or inadvertently created a nationwide banking crisis! If the system had been 100% gold money, without any fractional reserve banking, then the Friedman study would indicate that 2 1/2 % of the money supply would have had to be exported to create the same crisis (assuming the bankers' reactions were the same).

The panic of 1907 is also a modern demonstration of the danger to public safety posed by a gold money standard, which foreign interests can manipulate at will and easily enough withdraw from circulation.

## GOVERNMENT COMES TO THE RESCUE - AGAIN

As usual the bankers were extracted from yet another crisis by help from the U.S. Government. In November 1907 the Treasury issued $150 million of bonds and certificates and allowed the banks to use them as additional reserves, and the crisis was overcome. Had it been necessary for the government to find gold to back the new money it might have been unable to rescue the banks from their dilemma. The gold standard ideologues ignore this necessary governmental intervention to save the system, when they praise the workings of their mythical gold standard during this period.

## THE ALDRICH-VREELAND SYSTEM

The shock over the Panic of 1907 was used by the bankers in their campaign to gain greater control over the U.S. money system:

"The weakness had long been recognized in the banking literature…It took the dramatic experience of 1907 to make some measure of reform politically imperative," wrote Friedman and Schwartz.[20]

The first step was the formation of the Aldrich-Vreeland system, which was government controlled through the Comptroller of the Currency and had the power to authorize some banks to issue new money.

It is perhaps the only example in U.S. history where the bankers wanted to increase the monetary powers of government officials. What was going on? It appears to have been a part of the longer term plan to establish a privately owned central bank. For the Aldrich-Vreeland act was only for a limited period - it was scheduled to go out of existence in just six years, in 1914. A section of the act called for a national Monetary Commission of nine Congressmen and nine Senators to do a study and make recommendations on the nation's money and banking system.

Senator Aldrich, a bankers man, was Chairman of the commission. He was in the Rockefeller camp, and was the maternal grandfather of former New York Governor Nelson Aldrich Rockefeller and his brother David Rockefeller of Chase Manhattan Bank.

Aldrich-Vreeland worked well, but the plan was to substitute the Federal Reserve System in its place. Aldrich's monetary commission issued 24 large volumes, but according to Del Mar nowhere in these publications was the nature of money defined. The final volume called for the creation of a privately owned central bank, the "National Reserve Association" in which "Control was to be exercised completely by private bankers," wrote Studenski and Kroos.[21] In the passage of legislation this would evolve into the Federal Reserve Act.

During its six years, Aldrich-Vreeland functioned well, giving yet another historical example of monetary powers being effectively and properly administered by the U.S. Government.

The Aldrich-Vreeland system ultimately issued around $400 million in currency, representing about 1/4 of the total currency in the publics hands. It successfully met the one crisis it faced on the outbreak of World War I in Europe, when there were large withdrawals from American banks.

The successful handling of that crisis led Friedman and Schwartz to remark: "The episode strengthens our view that it would have been equally effective on the occasion of the next threat of an inconvertibility crisis which arose in late 1930."[22]

## FED ESTABLISHED BY STEALTH - BUT IS IT A CONSPIRACY?

Webster's New Twentieth Century Dictionary Unabridged defines conspiracy as: "A planning and acting together secretly, especially for an unlawful or harmful purpose, such as murder or treason." By that definition, I think the evidence indicates that there was a conspiracy to establish the Federal Reserve System, by a small group, who knew it would be harmful to the nation. But readers should consider the information in this and the next chapter and evaluate the conspiracy question for themselves.

Gabriel Kolko, not a child in such matters, wrote:

"There was no conspiracy during the Progressive era...(while) people and agencies acted out of public sight and official statements frequently had little to do with operational realities...There was a basic consensus among political and business leaders as to what was the public good, and no one had to be cajoled in a sinister manner."[23]

But one must consider the work of Georgetown Professor Carroll Quigley. Historian Quigley also belittled the idea of a childish conspiracy, with secret handshakes, and other signs, where orders are given and obeyed in a top to bottom hierarchy. But he affirmed - even exposed - the existence of a serious and secret power network that he labeled the Anglo American Establishment; and which he demonstrated held inordinate power in determining historical outcomes. However, this group came into existence just at the end of the 19th century, and did not appear to be involved in creating the Federal Reserve System.

One of the most significant sections of Quigley's book *Tragedy and Hope* is on Financial Capitalism and contains this intriguing paragraph:

"The influence of financial capitalism and of the international bankers who created it was exercised both on business and on governments, but could have done neither if it had not been able to persuade both these to accept two "axioms" of its own ideology. Both of these were based on the assumption that politicians were too weak and too subject to temporary popular pressures to be trusted with control of the money system; accordingly, the sanctity of all values and the soundness of money must be protected in two ways: by basing the value of money on gold and by allowing bankers to control the supply of money. ***To do this it was necessary to conceal, or even to mislead, both governments and people about the nature of money and its methods of operation."***

Readers will recognize that conclusion as one of the primary theses of this book. Quigley gave one example of the deception:

"...bankers, as creditors in money terms, have been obsessed with maintaining the value of money, although the reason they have traditionally given for this obsession - that 'sound money' maintains 'business confidence' - has been propagandist rather than accurate."

Quigley noted that: "Inflation, especially a slow steady rise in prices, encourages producers, because it means they can commit themselves to costs of production on one price level and then, later, offer the finished product for sale at a somewhat higher price level."[24]

Such a situation is usually best for working people, while "price stability" the Federal Reserve's 1990s mantra, has been really good for paper manipulations, but bad for the average working man. We'll discuss this point again.

The caution for Europeans now in the process of forming a new money system is to be certain of a diversity of outlook, background, religion and interest on the part of those who are to structure and operate that money system.

The people of the bank knew what they wanted and actually gave the nation a small sample of it with Aldrich/Vreeland except that Aldrich/Vreeland was government controlled. But no matter - they would make it appear that the new private central bank was to be government controlled also.

Woodrow Wilson, a professor of political economy, whom the king-makers whisked from his ivory tower at Princeton into the Presidency in 1912, was a Calvinist, trained at John Hopkins University in "Classical Laissez-Faire, and the political Whiggery of Burke," wrote Kolko.[25]

Professor H. Parker Willis described his meeting with Wilson:

"My first talk with President-elect Wilson was in 1912. Our conversation related entirely to banking reform. I asked whether he felt confident we could secure the administration of a suitable law, and how we should get it applied and enforced. He answered:

**'We must rely on American business idealism.'"**[26]

However much we may blame Willis for his naiveté in helping to establish the Federal Reserve System, at least he was asking the right question. How can you trust bankers to run the money system? Here we have two professors of political economy with little knowledge of business history or practical business. Wilson's answer, "We must rely on American business idealism," was received seriously, and not greeted with uproarious laughter, as it deserved to be.

"To precisely what was Wilson committed?...'I am for big business, and I am against the trusts,' but he could not define the major difference between the two and he never gave the matter serious thought," wrote Kolko.[27]

Professors like Wilson, Willis, and J. Laurence Laughlin, (Willis' teacher), without real knowledge of the business or trading world but with over-inflated egos and a religious attachment to the inaccurate theories of Adam Smith, were easy prey for Europe's and America's banking operators. With the sharper mindsets of Oriental traders (to use Butler's phrase), or stock market manipulators, they ran circles around these sluggard professors and foisted the Federal Reserve System onto the American people.

THE WORK OF EZRA POUND AND EUSTACE MULLINS

Until the late 1950s, very few Americans had an idea how the Federal Reserve System functioned. It was only on the initiative of the

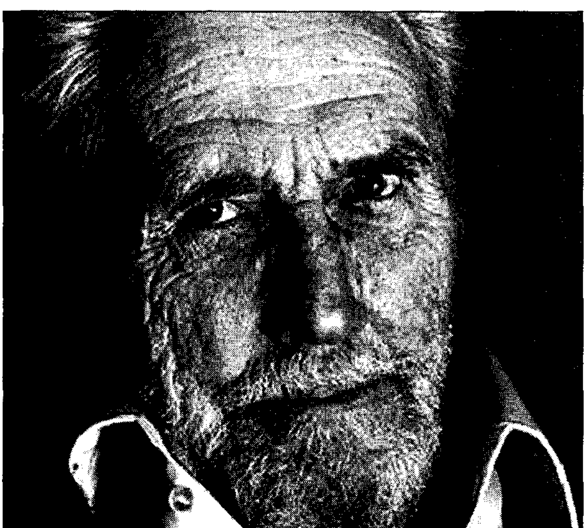
American poet Ezra Pound, and his student Eustace Mullins, that it would be clearly documented in a readable form.

Mullins had studied under Ezra Pound in the late 1940s, as had the poet T. S. Elliot. Pound understood the abstract nature of money, and the importance of that concept to society. One of the requirements he set for his students was that they read all of the available writings of Alexander Del Mar. T.S. Elliot went on to become one of America's greatest poets; Mullins' work would be just as important, exposing the fraudulent money and banking system. For a deeper insight into Ezra Pound and Mullins, I recommend a biography Mullins wrote on a part of Pound's life, called *This Difficult Individual.*

Eustace Mullins was working as a librarian at the Library of Congress, and had the world's greatest research library on this subject at his fingertips, plus the knowledge of how to use it. He also had the willing assistance of other research librarians. To put together the information that they assembled would otherwise have required a small fortune, and could not have been done.

Mullins' book, *The Federal Reserve Conspiracy*, was published in 1952, and continues to be the definitive work on the Fed (Federal Reserve System), from that viewpoint. Through Mullins' work, many behind the scenes activities of highly placed financiers came to light.

The book is generally banned from discussion in Economics departments of American universities, as it doesn't hesitate to mention the names of the people responsible for foisting the Fed onto us. Many of



*19d.*
**American poet Ezra Pound (1885-1972) had a deep awareness of monetary principles, and some of his poetry deals with the destructive moral and social effects of usury. Pound required his students (including T.S. Elliot) to read all the writings of monetary historian Alexander Del Mar.**

these names are among the "cream" of America's financial establishment, whose donations and foundations finance the colleges and universities. Some of the names are Jewish, and it is almost impossible to discuss that in America. Mullins book is especially valuable to read in conjunction with Milton Friedman and Anna Schwartz's classic, *A Monetary History of the United States; 1867-1960.*

ORGANIZING THE FED

In 1901 J.P. Morgan interests and the Kuhn Loeb group formed an alliance known as Northern Securities. Paul M. Warburg, a recent immigrant from Germany and a partner of Kuhn Loeb, was rumored to be paid $500,000 per year to travel the East Coast and write and lecture on monetary reform.

"The first detailed plan of central banking came in 1910 when Paul M. Warburg…made public his plan for a 'United Reserve Bank,'" wrote Studenski and Kroos.[28]

Senator Aldrich was said to have expressed despair to J.P. Morgan, over not being able to devise a suitable central bank plan, after receiving so much conflicting expert testimony at his monetary commission.

Morgan then introduced Aldrich to Warburg, as the one man who could professionally come up with a viable plan, according to Ely Garrison in his memoirs of the events surrounding the creation of the Fed. Colonel Ely Garrison was one of Teddy Roosevelt's "Rough Riders," and a friend and financial advisor to Presidents Theodore Roosevelt and Woodrow Wilson. He had a lifelong interest and devotion to monetary reform, and believed that was his special destiny.

On November 22, 1910, an evening train left New Jersey with Warburg, Senator Aldrich, Frank VanderLip of National City Bank and other top members of the New York banking establishment, for a nine-day stay at their hunting lodge on Jeckyll Island, Georgia.

This Jeckyll island meeting devised the "Aldrich" banking plan, primarily authored by Warburg, who objected that it couldn't pass Congress with Aldrich's name on it, since he was so closely identified with banker interests. Warburg turned out to be correct; the bill failed to pass with Teddy Roosevelt, a Republican, in the White House.

AUTHOR? AUTHOR?

In 1912 Wilson won the Presidency and the bankers had the bill re-written by Prof. H. Parker Willis and Senator Carter Glass, as the Owen-Glass Bill. Ely Garrison maintained that Willis and Glass really re-wrote a bill that he and Professor William A. Scott of the University of Wisconsin had re-written and given to Wilson.

Professor Laurence Laughlin, Willis' old teacher, also thought he was the author. But Colonel Garrison relates how the bankers' controlled him: "Laughlin is in the pay of Kuhn Loeb & Company through a big clothing manufacturing company which offers so-called economic essay prizes every year in a competition run by Laughlin," and, getting a bit nasty:

"… Professor Laughlin of Chicago who, Warburg said, was decidedly muddle-headed and therefore easy to lead by the nose."[29]

Garrison placed great emphasis on his favorite proviso of the proposed legislation; that loans must be based on the short term commercial paper connected with new production, not on government bonds or brokers' loans. This was the "real bills doctrine." It was argued that as new money creation brought new goods into existence, it would not be inflationary. This was an important feature.

Later observers concluded that the two banking plans were virtually the same:

"No economic journal dared to compare the [Federal Reserve] Act with the Aldrich Plan, but such a comparison would show that...there was no appreciable difference between the two plans," wrote Mullins.[30]

"[The Federal Reserve Act] Establish(ed) a system very similar in general structure to, and identical in many details with the specific plan of reform recommended by the (Aldrich) Commission," wrote Friedman and Schwartz.[31]

But some newspapers did point out how similar the Federal Reserve Act was to the Aldrich plan, and opposition was building from two members of the Glass banking committee, Robert L. Henry, and Joe H. Eagle:

"These men attacked the Glass bill as being virtually identical to the Aldrich Bill in its basic principles," wrote Kolko.[32]

**If the bill became accurately identified as the Aldrich bill in Democratic disguise, it probably could not have been passed into law.** Into the breach stepped William Jennings Bryan:

"It required all the political strength of William Jennings Bryan, the dominant power in the democratic Party, to get Congress to pass the act" …(Wilson) could do little towards actually getting Congress to pass the Federal Reserve Act. That job was done by...William Jennings Bryan. He acted as Democratic whip to get the act passed, and he was rewarded by being made Secretary of State," wrote Mullins.[33]

## THE BANKERS PRETEND TO OPPOSE THEIR OWN BILL

Eustace Mullins was the first to uncover this tricky tactic, which Colonel Garrison had obscured:

"To still further confuse the American people and to blind them to the real purpose of the Federal Reserve Act, the chief proponents of the Aldrich plan, Senator Nelson Aldrich and Frank VanderLip, set up an enthusiastic hue and cry against the bill."[34]

The American Bankers Association echoed them with:

"For those who do not believe in socialism it is very hard to accept and ratify this proposed action on the part of the government," stated their official publication.

This was a bit strange since the executive committee of the American Bankers Association had actually revised the virtually identical Aldrich plan, with the comment that they "heartily approve the plan," wrote Studenski and Kroos.[35]

The result of all these machinations was that the bill passed the Senate on December 19, 1913 by a vote of 54 to 34 and the House on December 22, by 298 to 60. Wilson signed it into law on December 23, 1913.

The stated purpose of the Federal Reserve Act was:

"An act to provide the establishment of Federal Reserve banks to furnish an elastic currency, to afford a means of rediscounting commercial paper, to establish a more effective supervision of banking in the U.S., and for other purposes."

Cynical observers would later assert that the real reason for the act was indeed "for other purposes." Only much later would it become more clear what had transpired, partly as a result of biographies and obituaries being published, congressional hearings, and then Mullins' book, which drew heavily on such sources.

## PARALLELS TO ESTABLISHING THE BANK OF ENGLAND

The historical parallels between the establishment of the Federal Reserve System in 1913, and the Bank of England in 1694 are striking:

First, the secret efforts surrounding the formation and passage of the legislation for both institutions. In Chapter 11, we read Paterson's description of how the Bank of England's legislation was promoted: "All the while the very name of a bank or corporation was avoided, though the notion of both was intended..." The Bank of England legislation was not even framed in its own act, but quietly passed as a rider to a shipping bill. With the Federal Reserve, we see the maneuvers of creating the temporary Aldrich-Vreeland system; the secret Jeckyll Island meeting; the disguising of the Republican bankers' bill as a Democrats' bill; and the bankers pretending to oppose their own bill!

Second, both laws depended heavily on wealthy and more sophisticated foreign supporters and organizers. The Bank of England was organized largely by Dutch and Jewish financiers, who provided the formula and the impetus for it. The formula for the Federal Reserve System came largely from the Kuhn Loeb bankers connected with the European Rothschild interests; for Paul Warburg's overriding importance in the formation of the Federal Reserve System cannot be denied. However, the impetus also came from Morgan and it could not have been done without the complicity, support and organization of America's financial establishment.

Third, both institutions were very complex and not understood. This resulted partly from the need to cloak their effect - to obscure that the nation's sovereignty over its money was being transferred to private persons. Paterson wrote that few persons could understand the Bank proposal. And few could understand the Federal Reserve. Even among the American press:

"The *Nation* magazine was the only public organ, so far as I can find out which pointed out that the issue of the money of the U.S. was being turned over to a body of men who were neither elected nor answerable to elections," wrote Mullins.[36]

This lack of understanding was further compounded by the vagueness of the act itself. Friedman and Schwartz pointed out that:

"The Federal Reserve System therefore began operations with no effective legislative criterion for determining the total stock of money... the discretionary judgment of a group of men was inevitably substituted for the quasi-automatic discipline of the gold standard. Those men were not even guided by a legislative mandate of intent (except the title of the act)."[37]

**Even within the Federal Reserve itself, almost no one besides Paul Warburg and Benjamin Strong had a clue as to what would happen:**

"In 1914 when these 12 banks were organized, a large staff of officers were gathered from all parts of the country and to them was delivered...just exactly what is contained in the Federal Reserve Act - and no more. With the exception of Paul Warburg and the writer, there was not one man in the entire organization who ever had the slightest experience in foreign banking, nor the opportunity to study the methods and policies of the banks of issue of Europe," wrote Benjamin Strong, the first President of the New York Federal Reserve Bank.[38]

This lack of understanding continued for decades as evidenced in Thomas E. Dewey's questions to Marriner Eccles (then Chairman of the Federal Reserve System) in a June 17, 1942 appearance before a congressional committee:

**Eccles**: "I mean the Federal reserve, when it carries out an open market operation, that is, if it purchases government securities in the open market, it puts new money into the hands of the banks which creates idle deposits."

**Dewey:** "There are no excess reserves to use for this purpose?"

**Eccles:** "Whenever the Federal Reserve System buys government securities in the open market, or buys them direct from the treasury, either one, that is what it does."

**Dewey: "What are you going to buy them with? You are going to create credit?"**

**Eccles: "That is all we have ever done. That is the way the Federal Reserve System creates money. It is a bank of issue."[39]**

Dewey was no slouch; he was to become Governor of New York, and nearly defeat Truman for the presidency in 1948; yet he had trouble grasping how the Federal Reserve created money out of thin air. He probably had believed the normal misinformation that banks mainly relend the money that their depositors place with them.

Fourth, both institutions were privately owned but made to appear as government bodies.

The introduction to Garrison and Scott's re-written plan submitted to Wilson made nine points of supposed "difference" with the Aldrich plan. Point number three was:

"The machinery and organization provided under this plan will work in the open, and are absolutely under government control."[40]

Point number four was:

"The ownership of this institution is not confined to banks and can never be controlled by any special interest or in any section of the country."

A fifth parallel was that some important early supporters would later condemn both institutions. In the case of the Bank of England, William Paterson became so disaffected that he published a book condemning the Bank's buildup of the national debt.

And with the Fed, several important early supporters regretted it later. William Jennings Bryan would write:

"In my long career, the one thing I genuinely regret is my part in getting the banking and currency legislation enacted into law."[41]

Professor H. Parker Willis, who thought he wrote the Federal Reserve act, began to attack it when he saw the extensive foreign influence on it. Striking out against the Directors of the Fed, Willis wrote:

"What could be expected from a group of men such as composed the board, a set of men who were solely interested in standing from under when there was any danger of friction, displaying a bovine and canine appetite for credit and praise, while eager only to 'stand in' with the 'big men' whom they know as the masters of American finance and banking."

Woodrow Wilson also regretted his role in establishing the Fed, and later wrote a scathing statement against the Money Power.

Sixth, both institutions gave the impression that their notes were backed by gold. In fact the Federal Reserve's notes (not its created deposits) started out as gold backed, but that would soon be changed.

Seventh, both England and America were quickly pushed into major wars. England warred needlessly for over a century, as Cantillon told us in Chapter 11. America was immediately drawn into World War One.

## THE AGE OLD TECHNIQUES OF MONETARY DOMINATION

The Federal Reserve System employed the standard false monetary concepts used for centuries to make domination possible. As early as 1735 (see Chapter 12) the philosopher Bishop Berkeley had warned about them, in the English language. Those false concepts were:

* Money's nature is a commodity.
* Money must be gold.
* Bankers were the source of money in a society, rather than the society itself.
* Bankers could somehow be trusted to control the money system.

Some of these misconceptions contradict each other, but different impressions were given to different groups at different times. The resulting misunderstanding and confusion is the private central bank's best protection, as it was with the Bank of England.

## "SAFEGUARDS" IN THE FEDERAL RESERVE ACT

It had been easier for the Dutch and Jewish financiers, and their new Orange Monarchy, to establish the Bank of England as the monetary sovereign in that nation. In America, a paper money nation from the start, there was more awareness of the far reaching privilege and power that such an establishment signified. The sensitivity to the injustice of such schemes ultimately kept the First and Second U.S. Banks of the U.S. from evolving into a permanent central bank - even kept them from surviving - and though this viewpoint could seldom dominate politics, it posed a substantial block to the ultimate alienation of society's monetary power to a privately owned central bank.

Thus there were substantial restrictions in the Federal Reserve Act, which appeared to block arbitrary abuses by bankers, including:

* All printed Federal Reserve notes were to be 100% backed by gold.
* The "real bills doctrine:" all commercial loans created as a deposit in a bank were to be backed 100% by commercial obligations based on new production, plus an additional 14% by gold.
* The Governors of the Federal Reserve Board in Washington were appointed by the President.
* Both the Secretary of the Treasury and the Comptroller of the Currency were members of the board.

The bankers accepted limitations to get the plan enacted. Changes would be made later. Benjamin Strong, the first Chairman of the New York Fed, wrote to Paul Warburg on November 1, 1913:

"I can reluctantly force myself to admit the necessity of compromise in matters of management, in the number of institutions to be organized, in the method of treatment of the national bank notes in fact, as to any other of the disputed questions raised by the Owen-Glass Bill, but as to the obligation of the U.S. Government being gratuitously added to these circulating notes…(no)"And:

"Paramount in importance...is the provision that the note issues...are to bear the obligation of the United States Government. This is a provisional return to the heresies of Greenbackism and fiat money."[42]

Strong was concerned that if the notes had the U.S. Government's obligation printed on them, they'd eventually become a government issued currency. Then there is no need for the agency of the Fed in the process, and no need for the government to pay interest on such a creation of money into perpetuity. **What Strong insisted on as crucial was that Federal Reserve obligations, not U.S. money, be made the money of the land.** Over time, as conditions changed, the bankers could use that power to remove some restrictions to which they had initially agreed.

As early as June 21, 1917 the 100% gold backing rule on printed notes was reduced to 40% gold and 60% acceptable commercial paper.

What determined whether commercial paper was acceptable - i.e. as good as gold? To a large extent Paul Warburg did. He founded and was Chairman of the International Acceptance Bank until his death in 1932. Any commercial paper that he and other bankers deemed acceptable could be used as reserves in the Federal Reserve System.

## A. MITCHELL INNES "LEADS" THE WAY

Thus the Federal Reserve System appeared to be based on gold as money, but the Fed had the potential to substitute bank credit for money. Just around the time of its inception, two articles appeared in the *Bankers Law Journal* (in May 1913, and in February 1914), written by A. Mitchell Innes, then Consul of the British Embassy in Washington, DC. They had the effect of preparing the mindset of those bankers who actually believed in a gold based money system, for the new "reality."

The articles "evoked much comment" according to the Journal, whose advance announcement of them lionized their author. Innes attempted to substitute the idea of credit for the idea of money. To do this he first had to disavow Adam Smith's erroneous metallist position of money being gold and silver by weight. That was well and good. The best and easiest way to attack Smith was to promote an historical analysis of money - so far so good.

But then in order to promote the notion that all money is credit, Innes had to ignore the historical examples of government money, especially the American examples such as the Greenbacks and the colonial currencies. He presented a fictional history substituting credit for money, erroneously claiming that even coins were credit. In effect Innes attempted to define money out of existence. He was yet another English expert befuddling American minds.

This is the general direction 20th century establishment economists followed: they made inappropriate and false distinctions between "high powered money" (actually money) and lower powered money (actually credit). Instead of doing their jobs as economists, and clarifying the crucial distinctions between money and credit, they confused and obfuscated the concepts.

## THE FED IS A FRACTIONAL RESERVE BANKING SYSTEM

In 19$^{th}$ century America, when bankers issued ten times the amount of banknotes than the actual coinage they held, and still pretended that the banknotes were convertible to coinage, that was a primitive form of fractional reserve banking. When too many holders of the notes tried to redeem them for coinage, the bank would suspend redeemability or go under.

Most people have been led to believe that the modern banking business consists of taking in deposits and then loaning them out at a higher rate of interest. But fractional reserve systems like the Federal Reserve generally allowed the system to loan out about ten times the amount of reserves that exist in the banking system.

The individual banks no longer issue the banknotes; they now make loans by creating a credit for the borrower on the bank's books, against which the borrower can write checks. These checks get deposited in other banks, and cash is seldom withdrawn. However, bankers pretend to be able to pay out cash for the created credits that the public holds in their bank. This is similar to the earlier bankers pretending to be able to pay coinage for banknotes they had issued.

The problem arises when the public gets worried over the solvency of their bank, and prefers to hold cash, rather than bank account credits. Fractional reserve systems are unstable because when depositors get scared and withdraw cash from the bank, it doesn't take much to start a run and close the bank.

Europeans may be surprised to learn that for the past three decades the American people have not had confidence in their banks and most of the large banks would have been destroyed by runs for one reason or another. There may be one or possibly two exceptions.

Only one thing has kept this from happening. The Federal Deposit Insurance Corporation (FDIC, enacted in 1935) guarantees the bank accounts. People know that the FDIC could not really handle a system-wide collapse, but they trust and assume that the U.S. Government will. Thus it is government credit that keeps the banks open in America.

It must be pointed out that the Federal Reserve System turns over 90% of its net income to the U.S. government, from the interest it earns on money creation. *However, most of the money in the system is created by the Fed's member banks, and they keep the net interest income they get from that process.* This is referred to as seigniorage, and it rightfully belongs to society. Depending on reserve requirements, individual banks can loan about 1.5 times the amount deposited with them. But then those loans go out and become further deposits in the banking system, so that new loans are made on them, etc. Eventually, *system wide,* a rule of thumb is that the deposits are multiplied about 10 times.

It must also be pointed out that despite demands from time to time, the Federal Reserve System has never been independently audited.

## THE INCOME TAX ALSO CREATED IN 1913

The small income tax started during the Civil War had been ruled unconstitutional by the Supreme Court. To establish a new income tax, it was necessary to pass the 16th amendment to the Constitution. It was proposed in 1909 and proclaimed ratified in 1913.

The income tax started out at 1% tax on personal incomes over $3,000 if single, $4,000 if married. This was upper middle class in 1913. There were also surtaxes on higher incomes, starting at 1% on $26,000 income, going up to 6% on incomes over $500,000. These tax rates were doubled in September 1916.

As the U.S. entered WWI the basic rates were doubled again on April 6, 1917, from 2% to 4%. The maximum surtax rate was raised from 13% to 63%, giving a top rate of 67% for those earning over $500,000 annually.

## A POSITIVE NOTE

Democratic Chairmen of the House Banking Committee have regularly developed a genuine distaste for the Federal Reserve System, and put forward legislation to nationalize or abolish it. For example, Congressman McFadden moved in the House to impeach the Federal Reserve Board in 1933, as we describe in Chapter 20. Chairman Wright Patman introduced a bill in Congress in 1938 to nationalize the Fed, but it failed to pass. Chairman Gonzales in the 1980s and 90s introduced legislation to rescind the Federal Reserve Act, but it could never reach the floor for a vote.

Shortly after the Federal Reserve Act had passed, Congress passed the Overmann Act, which gave the U.S. Government the power to take over all the assets of the Federal Reserve and take back control of the money system. The act expired after two years without being exercised. However, this is easily corrected. **Our government doesn't need an "Overmann" Act to regain its legitimate monetary powers. The United States can and should nationalize the Federal Reserve system, and the sooner the better.**

In Summary, the populist parties arose after the Democrats were neutralized by European bankers, splintering the national majority that favored the greenbacks. They were then diverted away from reclaiming the monetary power, onto the silver issue, leading finally to Bryan's Honest Money Campaigns. Their concerns abated as new gold discoveries and extraction processes softened the money drought.

Treasury Secretary Shaw was methodically stabilizing the banks when an artificially induced panic in 1906 provided the catalyst for establishing the Federal Reserve System. Senator Aldrich's monetary commission laid the theoretical framework but failed to define money, and the banking community pretended to oppose their own bill in order to get it passed. It took 40 years for the story to come out, thanks largely to the public spirited concern of American poet Ezra Pound.

Parallels to the formation of the Bank of England were evident: the secretive efforts surrounding the legislation; the role of foreign bankers; the indecipherable complexity of the systems; that the central banks were presented as government entities but were privately owned and controlled. But the Fed's legislation had enough advertised benefits for the farming community to convince some leading populists to mistakenly lend critically needed support to pass the bill.

### *Notes to Chapter 19*

[1] Peter Cooper, open letter to President Grant, June 1, 1877.

[2] W.J. Bryan, *The Second Battle*, (Chicago: W.B. Conkey, 1900), p. 207

[3] *W.J. Bryan and the Campaign of 1896*, edit., G. Whicher, (Boston: Heath, 1953), section by James A. Barnes quoting the Nation magazine, p. 25.

[4] John D. Hicks, *The Populist Revolt*, (Univ. of Nebraska Press, 1961), p. 340.

[5] Henry George 1896 N.Y. Journal interview, quoted by Henry George, Jr., *Life of Henry George*, (New York: R. Schalkenbach Foundation, 1960), p. 558.

[6] Gabriel Kolko, *The Triumph of Conservatism*, (Chicago: Quadrangle, 1967).

[7] Kolko, cited above, pp. 18-22.

[8] Kolko, cited above, pp. 24, 7.

[9] Kolko, cited above, pp. 120-40.

[10] P. Studenski & H. Kroos, *Financial History of the U.S.*, (New York: McGraw Hill, 1952), pp. 210-15.

[11] Kolko, cited above, pp. 145-50.

[12] Studenski & Kroos, cited above, pp. 233-46.
[13] Alexander Del Mar, *History of the Precious Metals*, (1902, repr., New York: A.M. Kelley, 1969), p. 456.
[14] William F. Hixson, *The Triumph of the Bankers*, (Westport: Praeger, 1993), p. 13.
[15] Leslie M. Shaw, *Current Issues*, (New York: Appleton, 1908), pp. 304-11.
[16] Milton Friedman & Anna Schwartz, *A Monetary History of the United States, 1867-1960*, (Princeton Univ. Press, Natl. Bureau of Econ. Res., 1971), p. 150.
[17] Friedman & Schwartz, cited above, p. 161.
[18] Studenski & Kroos, cited above, p. 252.
[19] see Oliver M. Sprague, *History of Crises Under the National Banking System*, (repr., New York: A.M. Kelley, 1968).
[20] Friedman & Schwartz, cited above, p. 168.
[21] Studenski & Kroos, cited above, p. 255.
[22] Friedman & Schwartz, cited above, pp. 180-185.
[23] Kolko, cited above, p. 282.
[24] Carroll Quigley, *Tragedy and Hope*, (New York: Macmillan, 1966), pp. 46-7, 53.
[25] Kolko, cited above, p. 190-215.
[26] Eustace Mullins, *The Federal Reserve Conspiracy*, (New Jersey: Common Sense Press, 1954), as quoted on p. 94.
[27] Kolko, cited above, p. 255.
[28] Studenski & Kroos, cited above, p. 255.
[29] Elisha Ely Garrison, *Roosevelt, Wilson, and the Federal Reserve Law*, (Boston: Christopher Publishing House, 1931), pp. 260, 283.
[30] Mullins, cited above, p. 30.
[31] Friedman & Schwartz, cited above, Chapter 4.
[32] Kolko, cited above, p. 234.
[33] Mullins, cited above, pp. 27-9.
[34] Mullins, cited above, p. 30.
[35] American Bankers Assoc. magazine, April 23, 1911, *The Aldrich Plan, Suggested Plan for Monetary Legislation*, as quoted in Studenski & Kroos, cited above, pp. 258-60.
[36] Mullins, cited above, p. 30.
[37] Friedman & Schwartz, cited above, p. 193.
[38] Jan. 3, 1924 Letter from B. Strong to J. Hollander, quoted by Lester V. Chandler, *Benjamin Strong, Central Banker*, (Washington: Brookings, 1958), p. 17.
[39] as quoted by Mullins, cited above, p. 130.
[40] Garrison, cited above, p. 247.
[41] as quoted by Mullins, cited above, p. 29
[42] Strong's Oct. 17, 1913 letter to Col. Millard Hunsiker, as quoted by Chandler, cited above.

# CHAPTER 20

# THE FEDERAL RESERVE WRECKS AMERICA

"What is banking?...The most dangerous as it is the most ridiculous form of universal tyranny the World was ever called upon to destroy."
Frederick Soddy, Nobel Laureate, 1933[1]

"...the result is to make into the master what ought to be the servant."
The Archbishop of Canterbury, 1942

"...no one can breathe against their will."
Pius XI, Quadragesimo Anno, 1931

The Federal Reserve System was poorly defined from the start. It arose out of Aldrich's National Monetary Commission, which didn't bother to define money. The System's objectives were not spelled out carefully and its image differed considerably from its underlying potential. Publicly it continued the retrogression toward gold, away from the advanced Greenback concept. More privately, it confused money with credit, in the real bills doctrine. Prominent Democratic leaders such as William Jennings Bryan and Robert LaFollette, the populist Senator from Wisconsin, did not see where it would lead and were convinced to support its passage because they thought parts of it would help farmers.

As the Fed's monetary engines were fired up to finance WWI, we see as much confusion as conspiracy, right up to the Depression, as an unstable fractional reserve monetary system based on a false concept of money, controlled by bankers for private profit, went into high gear.

It was a central bank but its central Board in Washington, D.C., initially had little or no control over the 12 regional Federal Reserve Banks around the country (Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Denver, Dallas, and San Francisco). These 12 banks are separate corporations, owned by their member banks, which receive a 6% annual dividend on their shares. Each of these "FRBs" (Federal Reserve Banks) has nine directors: six are elected by their member banks, and three (non bankers) are appointed by the Board in Washington.

Initially the 12 FRBs set most of their own policy, following the lead of the New York FRB, where the system's real power was concentrated. Its president, Benjamin Strong, was reputedly one of the two men who actually understood the Federal Reserve System. The other was its primary author, Paul Warburg, who was on the Washington board.

## BANKERS PREFER AMBIGUITY

The Federal Reserve Act gave no specific guidelines for maintaining a proper money supply, but gave the bankers discretion. **One lesson from the Federal Reserve System is that bankers must not be given such discretion. The Systems requirements need to be spelled out in great detail** with regard to the desired outcomes to be reached on an ongoing and sustainable basis.

Ambiguity allows the Fed's image makers to stress the non-banker directors; but they don't elect an activist or real labor union leader, or anyone devoted to social justice. Thus the system is firmly in the hands of bankers and their sycophants.

The bankers have usually pretended that the Fed is a government body. Even today conservatives and many Libertarians falsely assert that the "government" and not private bankers control it. The Fed's booklets assert that the system operates as a "public service." But rather than take their word, we'll examine their real life performance.

## FED IN THE "NICK OF TIME" FOR WORLD WAR ONE

The Fed started operations on November 16, 1914 with total assets listed at $143 million. National banks were free to remain outside the system, and they were slow to join. Still the Fed got rolling "just in the nick of time" for World War One, wrote Secretary of State Cordell Hull. Other observers marveled at the happy coincidence. Prof. Edwin M.

Kemerer of Princeton commented:

"One shudders when he thinks what might have happened if the war had found us with our former de-centralized and antiquated banking system."

The *Journal of Political Economy* reacted similarly:

"The effect of the war upon the business of the Federal Reserve Banks has required an immense development of the staffs of these banks …Without of course being able to anticipate so early and extensive a demand for their services in this connection, the framers of the Federal Reserve Act had provided that the Federal Reserve Banks should act as fiscal agents of the Government."[2]

Mullins commented on this naiveté:

"Mr. Kemmerer's shudders are wasted. If we had kept our 'antiquated banking system,' we would never have been able to finance the allies or enter the war ourselves...the primary function of the central bank mechanism is war finance."[3]

U.S. SELLS ARMS TO BOTH SIDES

From December 1914, both sides turned to the U.S. for war supplies at any cost. Gold poured in as America's factories were channeled into war production and exports grew 600%. When the war began the U.S. was a net debtor in foreign exchange of $3-4 billion; by the end, a net creditor of $5 billion.[4]

America's largest bankers also financed England and her allies. By 1917 the Morgans and Kuhn Loeb Co. had floated a billion and a half dollars of loans to the allies in bonds sold through New York's big finance houses.[5]

Wilson refused to heed Secretary of State William Jennings Bryan's warning that "Money is the worst of all contraband," and Bryan finally resigned over the financiers drawing the U.S. into the war. But our Ambassador to England pushed Wilson toward war:

"The greatest help we could give the allies would be credit. Our government could make a large investment in a Franco-British loan or might guarantee such a loan. Unless we go to war with Germany, our Government, of course cannot make such a direct grant of credit," wrote Walther Hines Page.[6]

Less than a month later, Wilson asked Congress for a declaration of war over the sinking of the Lusitania. Earlier he had tried to declare war over false reports of the sinking of the Suffolk, which had been attacked but not sunk. On April 6, 1917 the U.S. declared war on Germany.

## WORLD WAR ONE LEAVES THE U.S. IN SERIOUS DEBT

Hostilities ended on November 11, 1918 after just 19 months; but one of the primary objectives of the Money Power was achieved - the U.S. was saddled with an unprecedented debt. The war cost the U.S. about $33 billion, or 20-25% of the GNP, leaving the Federal Government $24.3 billion in debt in 1920. This was about ten times greater than the previous high of the debt, back in 1866.[7]

## THE FED DESTABILIZES AMERICA'S MONEY SYSTEM

The effects of the Fed were opposite what the country had been led to expect:

"The (Federal Reserve System), intended to promote monetary stability, was followed by about 30 years of relatively greater instability in the money stock than any experienced in the pre-Federal Reserve period our data cover...," wrote Friedman and Schwartz.[8]

## 1914-1919 - A CLASSIC GOLD INFLATION

As gold poured into America for war materials, there was a large increase in the money supply. With plant and equipment and labor already running at high capacity, this caused a corresponding decrease in the value of money. From June 1914 to April 1917 the money stock was up 46% and wholesale prices increased 65%. From April 1917 to May 1920, the money stock rose another 49% and wholesale prices rose another 55%. Gold coins thus lost over 75 % of their value against commodity wholesale prices during the first six years of the Feds rule.[9] The self-described "hard money" advocates who preach that gold money always keeps its value should study these facts.

Responding to criticism over this gold inflation, the Federal Reserve Board insisted that the inflation was caused by "increased business activity."[10]

**Thus the Fed's gold standard was not an effective limit on inflation. Only a monetary system that sets objective limits on the money supply can protect from a rampant inflation. A commodity money system can't do that; nor can basing money on land, buildings, or new production. The method of limitation must be defined in the law.**

## EMERGENCY ATMOSPHERE UNDERMINES THE CONSTITUTION

Many obstacles to the monetary conquerors were swept aside under the guise of "war emergency measures." The closure of the New York

Stock Exchange from July 31, 1914 until April 15, 1915 created an air of emergency even before the U.S. entered the war. During WWI the nation's railway system was nationalized, adding to the crisis atmosphere in which American values were cast aside - sometimes secretly - and unconstitutional powers were handed over to Wall Street operators:

"...Woodrow Wilson did turn over this country to the worst elements in it during the First World War. The American people were put in the hands of three dictators, all three being Wall Street gamblers who had never held any elective office in the United States," wrote Mullins.

"Bernard Baruch, Eugene Meyer Jr., and Paul Warburg…exercised more direct power over the American people than any president, because back of these men was the strength of the financial oligarchy which had maintained undisputed sway in this country since 1863…," wrote Mullins. He then cited an example of this power, in Baruch's own words:

"Baruch as chairman of the War Industries Board exercised dictatorial powers over American manufacturers. At the Nye committee hearings in 1935, Baruch testified:

'President Wilson gave me a letter authorizing me to take over any industry or plant. There was Judge Gary, President of United States Steel, whom we were having trouble with, and when I showed him that letter, he said "I guess we will have to fix this up," and he did fix it up.'"[11]

Eugene Meyer Jr., the son of the dominant partner of Lazard Freres, was appointed at Baruch's insistence to the Chairmanship of the War Finance Corporation and was later appointed Governor of the Federal Reserve Board in 1931. Meyer handled the war finance of those agencies and banks not under the control of the Federal Reserve System. Meyer eventually bought the Washington Post newspaper, run by his daughter Katherine Graham until her death in mid 2001.

Paul Warburg was the subject of a U.S. Naval Secret Service Report of Dec. 12, 1918:

"Warburg, Paul, New York City. German. Naturalized American Citizen 1911, was decorated by the Kaiser in 1912, was Vice Chairman of the Federal Reserve Board, handled large sums furnished by Germany for Lenin and Trotsky. Has a brother who is leader of the espionage system of Germany," related Mullins.[12]

## BANK OF ENGLAND DICTATES AMERICAN MONETARY POLICY IN THE 1920s

"…after W.W.I a close cooperation was established between the Bank of England and…the Federal Reserve Bank of New York...largely due to the cordial relations existing between Mr. Montagu Norman of the Bank of England and Mr. Benjamin Strong...On several occasions, the discount rate policy of the Federal Reserve Bank of New York was guided by a desire to help the Bank of England," wrote monetary historian Paul Einzig.[13]

Fed Governor Leffingwell complained to the Washington Board:

"It is very painful for me to say but when Governor Strong got back from London he told me that he had agreed on a program with the Governor of the Bank of England...I regard it as exceedingly unfortunate, in view of all that history, that this agitation of rates comes about when we must raise $500 million every two weeks to keep from defaulting."[14]

In January 1920, the Fed raised its discount rate by 1.25% to 6%. On June 1, 1920 it was raised again to 7%. Wholesale prices, which peaked in May 1920, fell 56% by June 1921. This was the sharpest decline in U.S. history, and led to an unnecessarily severe depression in 1920-21. That depression pushed American farmers into a financial crisis from which they did not recover, even as the stock market later soared.

*20a.* **On September 16, 1920 at 11:59 AM, a wagon carrying a bomb of dynamite and scrap iron was detonated at Broad and Wall Street, killing 38 and wounding hundreds. The driver had walked away and was never caught.**

## BENJAMIN STRONG AND MONTAGU NORMAN: LOVE AT FIRST SIGHT?

It's pretty clear from their correspondence that Benjamin Strong and Montagu Norman were involved in more than a business relationship for years. Norman wrote to Strong on September 6, 1928, on learning that Strong was to retire due to illness:

"Dear old friend,

I accept the decision that you resign...then the curtain will be rung down on our stage and then I would like to be on the spot so as to hold your hard hand at the moment of announcement...But what a stage ours has been over these 10 or 12 years!...Your dreams have come true and over these years I have watched the process (as no one else has done) with affection and pride. For the rest of my life that belongs to me as a memory which none can take away.

"Whatever is to happen to us - wherever you and I are to live - we cannot now separate and ignore these years. Somehow we must meet and sometimes we must live together...I have a feeling that in one way or another you will still be useful to those whom you have given service and made sacrifices and they are international and almost world wide. So I believe the best is yet to be."[15]

Exactly who were these people that Benjamin Strong had been "useful" to, "given service" and "made sacrifices" to? These "international, almost world wide" people? Montagu Norman does not say. He is certainly not referring to the American public.

Since it appears that Strong carried out Norman's wishes and sacrificed his Americans, one might guess he was the submissive partner. But then when Norman refers to Strong's "hard hand" all sorts of possibilities arise in the meting out of "manly discipline" to naughty upper class Englishmen.

## WHAT MADE THE "ROARING TWENTIES" ROAR?

Long after WWI ended, the Bank of England still called the tune at the Fed, fueling the "Roaring Twenties," and culminating in a great speculative binge. The two Banking systems, not the government, were responsible:

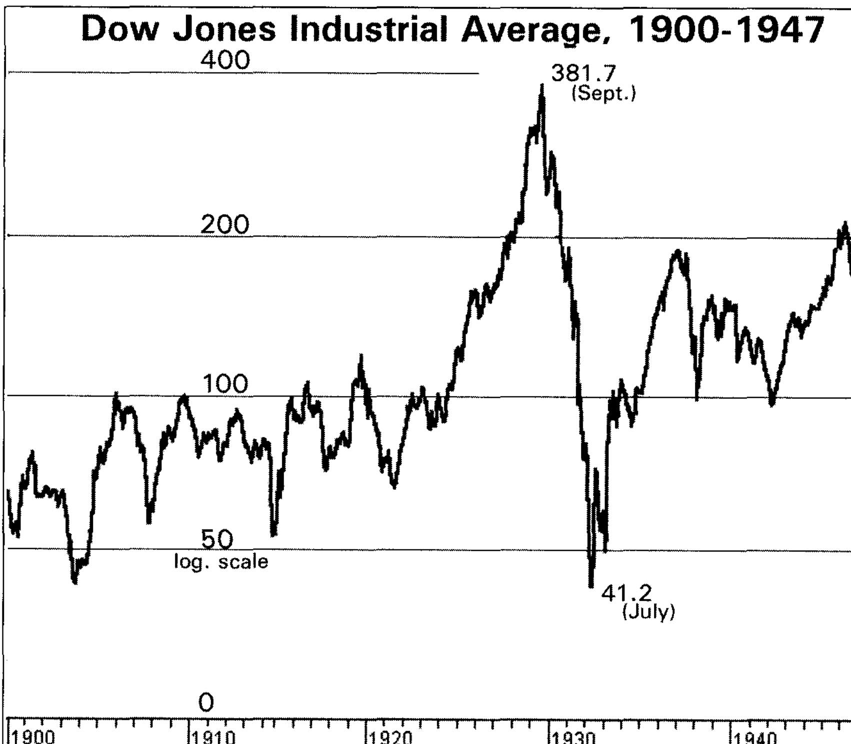
In 1920, U.S. Government expenditures were 8% of the national income. In 1929 these expenditures were only 4% of national income. In 1920 the Federal government's debt was $24.3 billion. In 1929 the Federal Government's debt dropped to $16.9 billion. Clearly it was not U.S. government programs that fueled the roaring twenties. If anything, the government did the opposite.[16]

Studenski and Kroos point out that in the 1920s the banks abandoned the "real bills" doctrine of financing industrial production, and instead "financed" the financial bubble: "For while member bank commercial loans remained about the same from 1921 to 1929, their security loans increased 121%; real estate loans 178% and investments [increased] 67%."[17]

We can see the effects on a chart of the Dow Jones Industrial Average, as stock prices were shifted into high gear starting around 1926.

## ENGLAND'S GOLD STANDARD IDEOLOGY CAUSES THE 1920s FRENZY

The British pound had been heavily inflated during WW1, with over 5 billion pounds in new debt created. The cost of living index rose from




*20b.* **The Dow Jones Industrial Average really took off after the Bank of England's influence was brought to bear on the Fed in 1926 to support England's foolish gold standard policy, a major cause of the Great Depression.**

100 in 1914 to over 276 in 1920.[18] Yet in 1925 the Bank of England made the pound convertible into gold at pre-war parity levels and paid out gold for paper at the old rate, which was not realistic; in fact it was perverse.

The effects were not felt in England and Europe for a time because the Federal Reserve System supported the Bank of England by **keeping interest rates low in America, encouraging the export of gold to Europe.** However, the U.S. money supply became progressively more leveraged, being based on smaller reserves, and the low interest rates helped to fuel the stock market bubble, driving prices up to unrealistic levels, from which a collapse was likely.

H. Parker Willis confirmed the foreign source of the policy:

"In the autumn of 1926 a group of bankers...[met] in a Washington hotel. One asked if the low discount rates of the system were not likely to encourage speculation. 'Yes' replied the famous banker, 'they will, but that cannot be helped. It is the price we must pay for helping Europe.'"[19]

The Congressional "Stabilization" hearings of 1928 confirmed that Europeans [i.e. the English] had determined the Fed's policy, especially the testimony of Federal Reserve Board Governor Adolph Miller:[20]

**Governor Miller:** "I think we are very close to the point where further solicitude on our part for the monetary concerns of Europe can be altered. The Federal Reserve board last summer, 1927 [began]...to ease the credit situation and to cheapen the cost of money. The official reasons for that departure in credit policy were that it would help stabilize international exchange and stimulate the exportation of gold."

**Committee Chairman McFadden:** "...Where did the suggestions come from that caused this decision...?"

**Governor Miller:** "The three largest central Banks in Europe had sent representatives to this country. There were the Governor of the Bank of England, Mr. Montagu Norman, the President of the Reichsbank, Mr. Hjalmar Schacht, and Professor Rist, Deputy Governor of the Bank of France. These gentlemen were in conference with officials of the Federal Reserve Bank of New York. After a week or two, they appeared in Washington for the better part of a day...They came down the evening of one day, and were the guests of the Governors of the Federal Reserve Board the following day, and left that afternoon for New York."

**Chairman McFadden:** "Was it a social affair, or were matters of importance discussed?"

**Governor Miller:** "I would say it was mainly a social affair.
**Mr. Kinat** "What did they want?"
**Governor Miller:** These gentlemen were all pretty concerned with the way the gold standard was working. They were therefore desirous of seeing an easy money market in New York, and lower rates, which would deter gold from moving from Europe into this country.
**Mr. Beedy:** "Was there some understanding arrived at between the representatives of these foreign banks and the Federal Reserve Board or the New York Federal Reserve Bank?"
**Governor Miller:** "Yes."
**Mr. Beedy:** "It was not reported formally?"
**Governor Miller:** "No.
**Chairman McFadden:** "You have outlined here negotiations of very great importance."
**Governor Miller:** "I should rather say conversations."
**Chairman McFadden:** "Something of a very definite character took place?"
**Governor Miller:** "Yes."
**Chairman McFadden:** "A change of policy on the part of our whole financial system which has resulted in one of the most unusual situations that has ever confronted this country financially."
**Mr. Steagall:** "The visit of these foreign bankers resulted in money being cheaper in New York?"
**Governor Miller:** "Yes, exactly."
**Governor Miller:** "A situation had been created that was distinctly embarrassing to London by reason of the impending withdrawal of a certain amount of gold...deposited in the Bank of England by the French Government...France was beginning to put her house in order for a return to the gold standard."
**Mr. Steagall:** "Is it true that that action stabilized the European currencies and upset ours?"
**Governor Miller:** "Yes, that is what it was intended to do."

So the American currency was destabilized to help the Bank of England fulfill its gold obligations to France. The so-called automatic functioning of the Bank of England's gold standard required the Americans to ignore national interests and sacrifice to that British Temple.

**The testimony reveals that the "automatic gold standard" was a myth, and that back then the Federal Reserve System's power really resided in the New York Fed. The European Bankers spent two weeks there, and not even one full day in Washington, DC.**

## THE FED CONCENTRATES MONEY IN TOO FEW HANDS

The credit creation up to 1919 was directed into war production for an unnecessary war. After the war ended, much of the new money put into circulation concentrated into the hands of the wealthy. While the money supply in the 1920s rose only $2.5 billion, wealth became dramatically more concentrated in fewer hands. In 1929, one percent of the population in America owned 36.3% of all the wealth in the country, one of the high peaks up to then. The rich already owned houses, cars, furniture, etc. Thus it did not greatly encourage production of much more of such items. Even commodity prices were hardly affected after 1921. A significant portion of the money went into financial instruments, the stock market, and office building speculation:

Elgin Groseclose, the late, much under appreciated head of the Monetary Research Institute in Washington D.C. wrote:

"From 1922 to 1929 the ratio of loans on securities to total loans and investments of reporting member banks advanced from 25% to more than 43%...On September 30, 1929 New York banks and trust companies alone had over seven billion dollars loaned to New York Stock Exchange brokers to finance security speculation...

"A huge building boom followed, the Federal Reserve Board index of building contracts awarded, rising from 63 in 1913 to 122 in 1925 and 135 in 1928...This boom occurred chiefly in skyscraper offices and expensive apartment house developments, whose notes were more readily marketable, rather than in the modest single family accommodations. The result was that when the era had passed the slums still existed, like rats nests around the whitened skeletons of downtown mastodons...By 1929, member bank loans against real estate, other than farm land, amounted to $2.76 billion, against $875 million in 1921."[21]

## THE 1929 STOCK MARKET PEAK

As the market soared in 1927, '28, and '29, no doubt most citizens, other than farmers, thought the Federal Reserve was doing a great job. The only inflation was in the stock market. But remember this principle: when the dynamics of a financial situation depends for its rewards and expectations to be fulfilled, that the stock market be valued over 20 times earnings, the system is headed for big trouble.

By early 1929 the more informed bankers were getting out of the market. Until then, they had reassured Congress and the country that all was well:

"In March 1928, Roy A. Young, Governor of the Board, was called before a Senate Committee. 'Do you think the brokers' loans are too high?' he was asked.

"I am not prepared to say whether brokers' loans are too high or too low," he replied, "but I am sure they are safely and conservatively made."

"Secretary of the Treasury Mellon in a formal statement assured the country that they were not too high, and President Coolidge, using material supplied him by the Federal Reserve Board, made a plain statement to the country that they were not too high. The Federal Reserve Board, charged with the duty of protecting the interests of the average man, thus did its utmost to assure the average man that he should feel no alarm about his savings. Yet the Federal Reserve Board issued on February 2, 1929, a letter addressed to the Reserve Bank directors cautioning them against the grave danger of further speculation," wrote H. Parker Willis, who became much disillusioned with "his" Federal Reserve System.[22]

THE BANKERS WERE WARNED AGAINST "SPECULATION"

Then On February 6, 1929 four days after its warning to the 12 Federal Reserve Banks, the Board warned the system's member banks that their purpose was not to finance speculation in the stock market through loans on securities. But the New York FRB ignored the warning and advertised the availability of another $25 million for brokers' loans.

The System's monetary base had already been moving toward contraction. At the end of 1928 the System's holdings of U.S. bonds dropped from over $600 million to only $230 million, having sold about $400 million of them in the open market during the year. They fell further to $145 million in the first half of 1929. Since these holdings could be used as reserves in the fractional reserve system, selling them could remove multiples of that amount of money from circulation; or it would require a more leveraged position, or substitution of other, inferior collateral.[23]

BENJAMIN STRONG WAS READY

Strong's correspondence of August 1928 showed an awareness of the problem, and how to handle it:

"...the very existence of the Federal Reserve System is a safeguard against anything like a calamity growing out of money rates...**we (have) the power to deal with such an emergency instantly by flooding the street with money**...the country is well aware of this." Strong knew how much power he personally held to avert a crisis:

***"If the system is unwilling to do it, then I presume the NY Bank must do it alone..."***[24]

Such action could buy the time needed for a more gradual adjustment, without panic. Those who regard "market forces" as deities won't understand Strong's confidence that, as president in control of just one of the Federal Reserve Banks, he could avert a crisis and turn back the seas. They don't appreciate how artificial their market gods really are. Benjamin Strong knew what he was talking about, and the New York FRB was the strongest of them.

Unfortunately, Strong became ill on a trip to see Montagu Norman and died at age 56, before the crash. Remember that it was Strong and Warburg, among all the high officials in the system, who really understood the nature of the power they wielded.

## WARBURG WARNS OF "THE ULTIMATE COLLAPSE"

Paul Warburg, who had been out of the Federal Reserve system since 1918, painted a very different picture from Strong. Writing in a March 1929 annual report to the stockholders of his International Acceptance Bank:

"If the orgies of unrestrained speculation are permitted to spread, the ultimate collapse is certain not only to affect the speculators themselves but to bring about a general depression involving the whole country."

The British press picked up on what was afoot in New York. On May 25, 1929, the *London Statist* presciently wrote:

"The banking authorities in the United States apparently want a business panic to curb speculation."[25]

## THE LAST STRAW

While insiders like Warburg were predicting the "ultimate collapse" as early as February and March 1929, the stock market went its merry way, reaching a peak in August. This demonstrates the difficulty of picking market turning points. The last straw was when the Federal Reserve Bank of New York raised its discount rate to 6% on August 6, 1929.

Other historic market tops have occurred in August. For example, the South Sea bubble in August 1720; the Panic of 1873; and the 1987 crash. The crash type of activity has been generally associated with mid-to-late October, when the declines turned into panics. Seasonal money supply increases are needed then, to move harvested crops in the northern hemisphere.

## THE CRASH

The great crash of 1929 was much more than an economic or market phenomenon. It was life and death to hundreds of thousands of human beings, about 36 million, if one includes the related World War II casualties.[26] The collapse spread from the U.S. to Europe and the rest of the world, except China, which was on a silver standard, not a gold standard, and was hardly affected.

It was also an event of deep sociological importance because laissez-faire ideas had ruled in the 1920s. But the crash made clear to virtually everyone that "capitalism," to the extent it was defined by the American political, economic and market system, had fundamentally failed. **That is the history we have been in the process of unlearning; it is the history that we appear doomed to repeat once more.**

## MONEY SUPPLY PLUNGES IN THE GREAT DEPRESSION

The really crucial data - the money supply figures - were not being watched at the time. In fact, the figures were not being published in a timely way and were not readily available. From August 1929 to March 1933 the U.S. money stock fell by one-third !

At the same time, the number of commercial banks fell by about one-third. The first wave of bank failures came in October, 1930. Another wave of failures hit in March, 1931. Domestically, currency was being withdrawn from the banks, depleting their reserves and creating a multiple effect on the money supply. Externally, except for 1929 and 1930, gold was being withdrawn from the system by foreigners, having a similar negative effect on the U.S. money supply.[27]

Today the money supply figures are watched but are not understood. Thanks to confusion over the nature of money, the Fed's measurements of the money supply are primarily measuring the credit supply. But credit and money are two different things, and Fed Chairman Greenspan admitted in recent testimony that he was having difficulty defining money.

## BRITAIN FORCED TO ABANDON ITS GOLD STANDARD FOLLY

Even after the crash, up to mid-1931, the Fed continued to support the Bank of England's failing gold standard, extending loans to European banks while denying them to domestic industry. In mid-1931, the FRB of New York and other FRBs were buying commercial paper from the Bank of England and the central banks of Austria, Hungary and

Germany, totaling $145 million.

"Charles E. Mitchell, a director of the New York FRB, was quoted as saying in all of these cases he was concerned about the soundness of the operation...and the thing which bothered him with regard to these foreign credits was the risk involved when, at home, the Federal Reserve Banks take no risks," noted Friedman and Schwartz .[28]

On September 21, 1931 Britain finally abandoned the attempt to maintain the gold standard at the pre-war price level. Within a year 25 other countries also quit this senseless position. Holding the pound sterling convertible to gold at the pre-WWI price represented an overvaluing of the British currency to the detriment of anyone who owed money and to the advantage of the creditors.

BARUCH'S DISMAL ADVICE TO ROOSEVELT

Bernard Baruch advised President Roosevelt to:

"...balance the budget and let nature take its course. But the grinding down of prices and wages that would result from such action might very well have led to a revolution. It wasn't reasonable to expect 12 million idle men in the presence of idle machinery to wait that long," observed Robert De Fremery, noting that:

"The orthodox banking theorists took the stand that a liquidation of bank credit would be a "wholesome" thing...But obviously a contraction of the supply of money is not a wholesome thing in terms of the effect it has on human beings."[29]

Roosevelt had experience in the bond trading business and was "street-wise" enough to ignore much of Baruch's advice. Many present-day Libertarians and conservative economists still ignorantly repeat Baruch's advice and criticize Roosevelt for resisting it. But the President was not in charge of the monetary system, the Fed was, and under cover of the "orthodox" monetary theories, such as Baruch's, the Fed's Board did little or nothing to improve the situation.

SOME CONGRESSMEN UNDERSTOOD

In January 1931, Congressman A.J. Sabath of Illinois took to the House floor after Eugene Meyer had turned down his suggestion that the proper response to the increase in bank failures was relaxation of eligibility requirements in order to encourage re-discounting, meaning more Fed lending to banks. Since a main reason given for establishing the Fed was to be a lender of last resort during emergencies, Sabath wrote:

"Does the board maintain that there is no emergency existing at this time? To My mind if ever there was an emergency, it is now, and this I feel, no one can successfully deny. For while 439 banks closed their doors in 1929, during the year 1930, 934 banks were forced to suspend business."

But Meyer refused to act. On the Floor of the House of Representatives Sabath said:

"I insist it is within the power of the Federal Reserve Board to relieve the financial and commercial distress."[30]

THE SILENT ECONOMISTS

Many economists simply ignored the Great Depression. Friedman and Schwartz would later write:

"Some academic people, such as Harold Reed, Irving Fisher, J.W. Angell, and Karl Bopp expressed similar views (to Congressman Sabath)...Most surprising, some of those whose work had done most to lay the groundwork for the Federal Reserve Act, or who had been most intimately associated with its formulation - for example, O.M. Sprague, E.W. Kemmerer, and H. Parker Willis - were least perceptive...One can read through the academic economic journals and find only an occasional sign the academic world even knew about the unprecedented banking collapse in progress, let alone that it understood the cause and the remedy."[31]

THE "PUSHING ON A STRING" ARGUMENT

There was a widespread belief that just making reserves available in banks wouldn't solve the problem because businessmen couldn't be forced to borrow in such bad times. Apologists for the bankers claimed there were not good loans to be made - that there was no loan demand. They say the Fed would have been "pushing on a string" in trying to make loans. We can rephrase their argument: the destruction created by the bankers made businessmen overly cautious.

However, the 1935 study of C.C. Hardy and Jacob Viner showed there was loan demand, and gave the real underlying explanation for the lack of loans:

"There exists a genuine unsatisfied demand for credit on the part of solvent borrowers, many of whom could make economically sound use of working capital...that one of the most serious aspects of this unsatisfied demand is the pressure for liquidation of old working-capital loans, even sound ones. That this pressure is partly due to a determination on the part of bankers to avoid a recurrence of the errors to which they attribute much of the responsibility for the recent wave of bank failures..."[32]

So the bankers were not trying to make loans and were calling in existing good loans. Under the disastrous conditions created by the banking system itself in confusing credit with money, and then using their creation of that credit to fuel a speculative bubble, normal business practices had utterly broken down when panic set in. The bankers were scared to death and for good reason: they were operating a fractional reserve system that had lost the confidence of its depositors.

Studenski and Kroos point out that those banks that survived were the ones able to quickly convert their operations from fractional methods into deposit institutions. Thus the assets of surviving banks shifted in two directions during the depression:

1) A sharp rise in the portion held in cash; and

2) A sharp rise in investments (mainly government bonds) relative to loans. In 1929, 40% of bank investments were in government bonds. In 1933 it rose to over 50%.

But if banks are acting as deposit institutions, then some other entity


*20c.* **The "Bonus Vets" of WWI gathered in Washington in 1932 at the depth of the Depression, to petition Congress to pay the $1,000 bonus already promised. It was a perfect way to make much needed increases in the money supply but "conservatives" were again "worried about inflation" and blocked it. On July 28, D.C. police clashed with the veterans. General Douglas MacArthur then set their camps on fire.**

must create the money. The Federal Reserve refused to do it, and the conservatives blocked Roosevelt from doing much.

THE BANKERS DIDN'T HELP END THE DEPRESSION

It was within the Fed's power to alleviate the tragedy. In 1929 about 37% of all the banks, controlling about 76% of all the banking resources, were members of the Federal Reserve System. In August 1929 the money stock was 10.6 times the gold reserves. By August 1931 the money stock was only 8.3 times the gold reserves, and gold reserves were falling. But the Federal Reserve System wouldn't use its reserves.[33] Why didn't they act decisively?

The first reason why the System failed to help the nation is that **it was not really set up to serve the nation's monetary needs**. That would have required a different structure - a nationally owned system, with explicit societal goals aimed at promoting the general welfare. The privately owned Fed was designed and set up to promote the short term profits of the largest bankers, while taking minimal risks. That is ultimately exactly what it did, as the system collapsed.

They never undertook to carry out the responsibilities to society that this power implies and requires. Contrary to the present day misty-eyed corporate ads prevalent on TV, which falsely portray a concern for their social responsibilities to humanity, the essential method of large American corporations is generally to grab privilege while denying responsibility. They privatize profits and socialize losses. In the Great Depression the bankers demonstrated that they felt little or no responsibility towards the American people whose financial lives they controlled.

**The second reason for the Fed's dismal performance is that, as a fractional reserve system, it depended on the public's confidence in it. The Federal Reserve System could not restore that confidence.**

The important monetary moves to get out of the depression came from Congress, not the Fed. In April 1932, under heavy Congressional pressure, the System embarked on large scale open market purchases of about $1 billion in government bonds, injecting the new money into the economy.

FOLLOWING ADAM SMITH TO THE DOORS OF HELL

The whole spectrum of erroneous ideas that made up Adam Smith's free market ideology dominated American economics and politics of the 1920s. Of course a real free market, like a free society, cannot be created by "laissez-faire," but requires rational legal limits. Especially damaging was Adam Smith's false analogy of running the government like an individual or shopkeeper's budget. That's why Herbert Hoover made these mistakes, trying to save and economize, in the firm belief that he was doing the right thing for the nation:

* Hoover ran federal budget surpluses through 1931;

* He put through a major tax increase in 1932;

* He sent federal workers home one day a week to save money.

The poor man followed his training in conservative economic theology to the letter, and just made things worse. For those concepts were not concocted with national interests in mind. The one good move Hoover made (besides starting the Reconstruction Finance Corporation) was to double expenditures on public works as depression gripped the nation. Today conservative ideologues even condemn him for that!

So it should be understood that the nation's depression nemesis was not just the Federal Reserve mismanaging the money system. The grip

*20d.* **Mariner Eccles, with roots in the American West (Utah), became Chairman of the Fed during the Depression, and brought a somewhat less doctrinaire though apparently dour viewpoint to the job.**

that the false economic concepts held on the nation was equally dangerous. Everyone was so sure that Adam Smith's erroneous ideas were correct.

## A ROUGH CHANGE OF THE GUARD FROM HOOVER TO ROOSEVELT

There was a four-month wait in the changeover to the new administration. The laissez-faire viewpoint dominated America to such an extent that Roosevelt, too, had advocated cutting spending and balancing the budget. However, his monetary intentions were unclear. He realized that a wider distribution of buying power was necessary for a recovery and he had promised a "new deal" with vast social reforms.

In Hoover's final days, panicky gold withdrawals pressured the banking system. The Federal Reserve asked Hoover to close the banks, but he refused. The Republicans then tried to bluff Roosevelt into publicly promising to continue the gold standard, as the only way to stop the panic and avoid a banking collapse. But Roosevelt had other ideas.

Roosevelt chose a policy of economic and monetary nationalism, putting the U.S. national interests above the cosmopolitan (international) objectives of "classical economics." John Maynard Keynes had developed an economic theory to support government deficit spending, to boost economic growth during down periods. Fortunately the new Chairman of the Fed, Marriner Eccles, agreed with Keynes and told a Senate committee that the concept of a balanced budget was archaic. But Keynes merely promoted a fiscal solution, not really a ***monetary*** solution.

## KEYNES TO THE RESCUE?

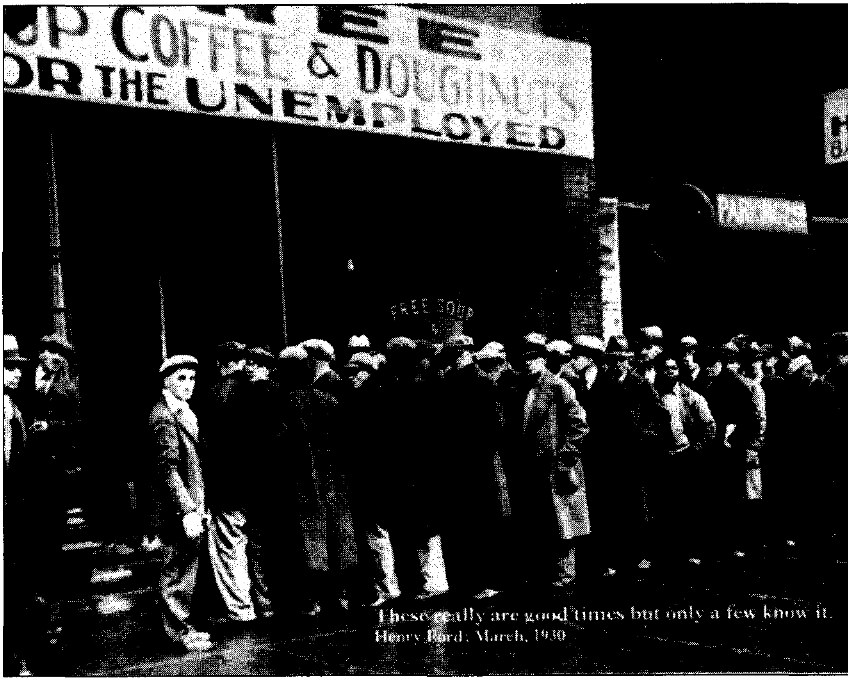
In December 1933 at the request of the *New York Times* (with some involvement of Supreme Court Justice Felix Frankfurter), English economist John Maynard Keynes wrote an open letter to President Roosevelt. Keynes wisely advised Roosevelt that "Only the expenditures of public authority" could turn the tide of depression. Well, that was obvious enough!

**However, Keynes inappropriately warned Roosevelt not to create the money for this, but only to borrow it, and wrongly advised him that there was already enough money in circulation, and that:**

"increasing the quantity of money…is like trying to get fat by buying a larger belt."

Several times, his letter attempted to influence Roosevelt to drop his program of necessary reforms, and to concentrate on short range actions:

"…even wise and necessary reform may, in some respects impede




*20e.* **A typical Depression era scene of unemployed men waiting in line for free soup. It has become increasingly difficult to find such photos as the modern whitewash of financial capitalism has gained strength.**

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recovery…N.I.R.A. [National Industrial Recovery Act of June 1933] which is essentially reform and impedes recovery…"

Keynes was therefore not "revolutionary" except in relation to the utter backwardness of the financial establishment and their economists. He did not come close to a real solution. That would have been another issue of Greenbacks, through which the U.S. government would have taken back the monetary power from those who had abused it. Ultimately Keynes protected his class from their own stupidity; he was yet another kind of "English expert."

Thus the continuing argument over "Keynesianism" is, in large part, another false monetary debate, such as that between the Currency School and the Banking School after England's "Bullion Report" (see Chapter 12); or between "inflation versus hard money" after the 1819 debacle of the 2nd Bank Of The U.S. (see Chapter 16). The real question has always been whether the nation's money should be created under law, by government, or under the private caprice of bankers.

ROOSEVELT "CLOSES" THE BANKS

One fiction put forward is that Roosevelt's executive order closed many "unwilling" banks. But most of them had already been closed when he took office. Bank holidays began with Nevada in October 1932. By March 3, 1933, state governors had declared banking holidays in about half the states, including New York, Illinois, Massachusetts, Pennsylvania, and New Jersey. The Federal Reserve Banks and the Stock Exchanges closed on March 4, 1933. On March 6th, Roosevelt declared a bank holiday to last until March 15, 1933.

FINANCIAL LOSSES OF THE DEPRESSION

The losses of depositors of the 9,000 American banks that suspended operations during the four years from 1930 through 1933 were $2.5 billion. The bank failures were the mechanism through which most of the decline in the money stock was produced, and this brought on the Great Depression. The decline in the value of all common stock was about $85 billion.

Though losses on stocks were 34 times the losses on bank deposits, it was the banking and money system that had caused the debacle. But the financial losses can't measure the full cost of the lives damaged or destroyed in the depression.

THE WRECKAGE

In less than two decades under the Federal Reserve System, 5,096 banks went bankrupt; 88% of them had less than $100,000 capital; 94% of them were in the South, the Midwest, and the West. They took the nation down with them:[34]

| **Item** | **1929** | **1932** | **Change** |
|---|---|---|---|
| National Income | $87.8 billion | $42.5 billion | - 52% |
| Industrial Production | $110 billion | $58 billion | - 47% |
| D.J. Industrial average | 381.17(Sept. high) | 41.22 (July low) | - 89% |
| Wholesale price index | 95.3 | 64.8 | - 32% |
| Unemployed | 3.5 million | 15 million | + 329% |

The value of international trade fell 63% during this period. By the end of 1934 there were an estimated 5 million households on Federal relief, about 18 million citizens. Roosevelt began direct relief programs (FERA) and started work programs that hired people to build roads, dams, national parks and other projects.

While such expenditures would build the national debt and benefit the bankers, some of the money spent would also build real infrastructure. Under a government money system, the U.S. could have as easily created the money itself, and not have been saddled with the debt. Yet even with this disadvantage, the nation's monetary system was so starved for money, that this small government deficit spending helped the situation.

*20f.* **Franklin Roosevelt understood the possibility of revolution and attempted to re-build the money supply wiped out in the stock market crash, with infrastructure projects such as the Hoover Dam and other work programs. But he was blocked at every turn by conservatives worried about inflation in the middle of the Great Depression! The financial establishment finally allowed the creation of bank credit for warfare, when it was certain the new products of industry would be blown up or sunk, rather than become useful infrastructure, increasing the nation's wealth and independence, as Hoover Dam still does. The water and sewer systems in our upstate New York area were also constructed under Roosevelt.**

SUMMARY OF DEPRESSION WORK AND RELIEF PROGRAMS - 1933 to 1940:[36]

**RFC** (Reconstruction Finance Corp.) set up by Hoover loaned $3 billion to distressed financial institutions.
Total cost: $283 million

**FERA** (Federal Emergency Relief Administration) made grants to the states for direct relief of $34 per family per month from 1933-37.
Total cost: $3.08 billion

**CWA** (Civil Works Administration) For work programs of the Federal Government, but not in competition with private industry.
Total cost: $818 million.

**WPA** (Works Progress Administration) paid $80 a month per person employed. About 2 million were employed annually.
Total cost: $8.12 billion.

These and several other programs expended a total of $15.51 billion between 1933 and 1940, only about a sixth of the financial losses of the depression.

FARMERS CAUGHT IN DEBT TRAP

The temporary rise in commodity prices from 1914 to 1920 had enticed farmers into too much debt, as the average value per acre rose to a high of $69.31. From there it plunged along with average farm income and farm value:[35]

| Year | Value per acre | Avg. Farm Value | Net Income |
|---|---|---|---|
| 1920 | $69. | $10,295 | $1,199 |
| 1923 | 56. | 8,107 | 781 |
| 1925 | 54. | 7,764 | 1,041 |
| 1930 | 48. | 7,524 | 651 |
| 1933 | 30. | 4,569 | 304 |

But while farm income and value dropped dramatically, examine how debt, interest payments, and taxes remained high, per average farm:

| Year | Total Debt | Mortgage Interest | Taxes per Farm |
|---|---|---|---|
| 1920 | $ 8,448 | $574 | $483 |
| 1923 | 10,785 | 679 | 516 |
| 1925 | 9,912 | 612 | 517 |
| 1930 | 9,630 | 570 | 567 |
| 1933 | 8,466 | 472 | 398 |

This spelled disaster for the farmers. It would take until 1951 for the price per acre to again reach the 1920 level.

As important as the work relief efforts, but less well known, were Roosevelt's programs to assist farmers. The first was by executive order in the 1935 Resettlement Administration, which became the Bankhead-Jones Farm Tenant Act of 1937. "Supervised credit," estimated at about $2 billion, was successfully offered to bankrupt farmers from 1935 to 1940:

"Under provisions of the 'supervised credit system' we monetized... the integrity and work skills of the family...a viable improved farm and family business plan...improved technology into the farming operation (and) utilized sound guides for re-appraising farm land," wrote Lee Fryer, who had been an agricultural finance officer.[37]

During this period the gross Federal debt was:

1933 - $22.5 billion
1935 - $28.7 billion
1937 - $36.4 billion
1939 - $40.4 billion
1940 - $43.0 billion.

AT LEAST THE GOVERNMENT ACTED

Some still criticize the government's actions as being ineffective in ending the Depression. In some ways they were. Remember, the reins of monetary control were not in government hands, but in those of the Federal Reserve. And since the depression had a monetary/banking cause, it required a monetary solution. These critics ignore that and pretend the Federal Reserve was/is a part of the government.

The government generally had to act indirectly, "borrowing money" created by the Federal Reserve System to pay for its programs instead of creating the money itself. In effect the Fed held a veto power over the governments financial actions. This is just one reason why the monetary power should never be alienated from our government.

ANOTHER GREENBACK IS NEEDED

It is clear from our presentation, especially Chapter 17, that the economic destruction cried out for another large issue of new Greenbacks by the Federal Government. It is clear that this would have created rapid progress toward recovery.

English economists, such as Keynes, had a small excuse for their ignorance of the possibility of using Greenbacks - their nation had virtually no tradition of governmentally created money since the late 1600s. Thus in Keynes' 1930 *Treatise on Money*, there is no significant mention of the events of American monetary history, certainly the most fertile ground for monetary thought and experience. This failure led Keynes into several historical and theoretical errors.

The American economists should have known better, but thanks to the purposeful neglect of the historical study of economics and economic thought, **most of them** were (and still are) as ignorant of the history of the Greenbacks as the English economists are.

***But not all American economists were ignorant.*** Some, including Paul Douglas (later a Supreme Court Justice) joined to promote the 100% reserve solution, discussed in Chapter 24. This would have substituted government paper money notes in place of the existing, but suspect, bank-created credit money. Intelligent economists must also have helped frame the Thomas Amendment described below, authorizing the creation of $3 billion in Greenbacks, if the banks failed to act.

## McFADDEN CHARGES THE FEDERAL RESERVE WITH TREASON

On May 23, 1933 Congressman Louis T. McFadden, Chairman of the House Banking and Currency Committee, presented Articles of Impeachment in the House of Representatives against the Federal Reserve Board of Governors, the Officers and Directors of the Federal Reserve Banks, the Secretary of the Treasury, and two Assistant Secretaries of the Treasury, for collusion in causing the Great Depression.

But McFadden stood almost alone, and the impeachment articles were defeated:

"His fellow congressmen started a whispering campaign that McFadden was losing his mind...in the next congressional elections McFadden was defeated by thousands of dollars poured into his home district of Canton, Pennsylvania [from outside sources]," wrote Mullins.

## 1933-35 CHANGES IN THE BANKING LAWS

In just 20 years, the Federal Reserve System had wrecked the American Economy. Clearly, changes were needed in the banking laws. The old Federal Reserve Board in Washington DC was dissolved and replaced by a seven-member Board of Governors, appointed by the President for 14-year terms. The Treasury Secretary and the Comptroller of the Currency were no longer on the Board, and the Board's real powers were greatly increased:

* The Fed Governors were given the power to regulate margin requirements on stocks.

* Their power over reserve requirements, rediscount rates, and market operations was increased.

* They had the power to appoint the presidents of the 12 FRB banks.

* Their regulations were given teeth. FRBs that didn't comply could have their credit foreclosed.

* The Open Market Committee was created, with one representative from each FRB. This committee could inject new money into the economy by creating money to purchase government bonds. It could remove money by selling its holdings of bonds.

* It is forgotten now, but of great importance back then was that in May 1933 the Thomas amendment authorized the 12 FRB's to buy $3 billion in government bonds; and if they didn't, it gave the U.S. President the power to issue $3 billion in Greenbacks. **The legal foundation was thus put into place to issue Greenbacks, no matter what the banks wanted to do.**

In 1934 the Federal Deposit Insurance Corporation was established, starting out insuring a maximum deposit of $2,500. This act truly revolutionized the banking system, because of the guarantee that depositors now had, from non-banking sources. The maximum insured deposit was increased over the years to its present $100,000 per account. It is mainly this guarantee that has kept the nation's banking system from collapsing on several occasions since the Great Depression. And while the Federal Deposit Insurance Corporation has never had the assets to stop a general collapse of the system, the public has accurately concluded that the U.S. government would step in for a rescue.

CHANGE IN THE GOLD STANDARD LAW

The 1934 Gold Reserve Act raised the price of gold from $20.67 per ounce to $35 per ounce. The U.S. went off the gold standard domestically, but stayed on for international payments. Citizens were allowed to keep $100 per person in gold coin or gold certificates. The rest was to be exchanged for Federal Reserve notes. Of $571 million in coin outstanding, $284 million was turned in.

The 69% rise in the legal price of gold was in terms of dollars which had themselves become much more valuable. Naturally gold mining shares benefited; but this had little to do with gold's intrinsic properties, and everything to do with the law!

## SECURITIES LAW CHANGES

Long overdue legislation was passed which mainly increased margin requirements and limited short selling. The "up-tic" rule required that a stock's price had to be higher than its previous sale price before a short sale could be made. This meant that actual holders of a stock were first in line if they wanted to sell it. Also, those who wanted to make a short sale had to borrow the same amount of existing shares from a current shareholder of the stock (Brokers provided this service). And it meant that short sellers could no longer sell more of a company's stock than actually existed. Thus manipulators could not simply drive down a stock at will.

Margin requirements were raised from the 10% level generally applied in the 1920s. The Glass-Steagall act separated banking from the brokerage and insurance businesses, with good effect.

## "MODERN" TRADING TOOLS CIRCUMVENT THOSE LAWS

By the mid 1980s and 90s, virtually all of these good regulations had been circumvented by the nation's exchanges. Trading in index futures got around the short sale regulations, because they can be sold in quantity, without up-tics, and without borrowing stock. Adding trading in options on these futures has further served to emphasize the gambling hall aspect of the nation's exchanges, while further minimizing the role they might incidentally play in financing industry. Furthermore, when such financing of real industry appeared to occur, as in Initial Public Offerings, the exchange mentality quickly turned most of them into fiascos for "investors." That these speculators may be getting what they deserve is still no excuse for running the exchanges in such a rapacious manner. This is the "economic man" (as both prey and predator) which our Chapter 12 described as more monster than human.

As for Glass-Steagall, the politically powerful financial sector has had legislation passed that has completely neutralized it. The elements are thus in place for a re-enactment of the Great Crash, in a more modern format.

## THE SOCIAL SECURITY ACT

On August 14, 1935, the single most important poverty fighting legislation in America was passed - the Social Security Act. The idea for a social security plan was first proposed by Thomas Paine, father of the American Revolution.[38] In addition to old age pensions, Tom Paine's plan had called for giving young families money to set up their households. Some conservatives condemn Roosevelt as socialistic, for enacting Social Security. But they have allowed a kind of ideological bitterness to distort their consciousness and are not seeing this clearly. They must also look at the real world effects of policies, not simply use ideology to condemn. Would they attack Thomas Paine, father of the American Revolution, as a socialist, for first proposing such a program?

Since the early 1970s the financial elite has incessantly worked to destroy Social Security: first by convincing Americans that it won't be there when they retire; second by pretending that Social Security has to be funded by tax payments, when in reality it would be best to have the money created directly by government, and paid to recipients.

## HISTORIC COLLAPSE OF THE GOLD/SILVER RATIO

The Great Depression served up another classic monetary lesson in the collapse in the price of commodity silver. The monetary theories of Adam Smith, David Ricardo, Karl Marx, and of Von Mises and the Austrians, all of which assert a commodity or quasi commodity nature of money, are refuted by the reality of the silver collapse. This was the second great collapse of the ratio; the first occurred from the 1870s when silver was demonetized as described in Chapter 18.

Silver had dropped from $1.38 per ounce in 1919, to 44 cents an ounce in 1932, down 75%. Since at that time gold was still $20.67 per ounce, this meant that the ratio was at 47 to 1 instead of the old 16 to 1.

The reason for the ratio collapse was that gold's value was still protected by law. It demonstrated that legal forces, not market or economic forces, determine the value of the precious metals. This is a crucial concept to grasp.

**The "sanction" of the law (and earlier the "sanctification" of the Temple) was still valid for commodity gold, but had been withdrawn from commodity silver. The law is what determined the ratio. The sanction of the law is what determined the value of the precious metals as money.**

## THE SILVER PURCHASE PROGRAM

In December 1933 Roosevelt directed the U.S. mints to receive all newly mined domestic silver and pay 65 cents an ounce. This increased the money supply slightly by subsidizing silver mining. But the Silver Purchase Act of June 1934 directed the Treasury to purchase all silver, both at home and abroad, until the price reached $1.29 or the silver stockpile reached one-third the value of the U.S. gold stockpile.

Like the Sherman silver purchase program of 1890, described in Chapter 18, it allowed wealthy foreign holders to sell their silver to the U.S. government at a higher than market price. From 1933 to 1961, about $2 billion in silver was purchased. Monetary reformers should run whenever they see the silver (or gold) mining interests coming.

In the mid-1930s, an irreparable break occurred between Roosevelt and the business community when he imposed several meaningful taxes upon them. These taxes have now been reduced to inneffectual rates, **which do not adequately compensate society for the educational, social, legal, and physical infrastructure, on which commerce and industry depend.**

Serious consideration can be given to lowering payroll taxes and re-imposing the higher levels on the super-rich, for many reasons. Especially on unearned income and "paper shuffling" activities which produce nothing, are often of questionable legality and harm the average citizen. The overwhelming majority of Americans seemed better off under the old, higher, progressive tax rate system.

THE MONEY SUPPLY FINALLY STARTS INCREASING

From 1933 to 1937 the money stock rose by 46% and wholesale prices rose by 45%. Stock exchange prices measured by the Dow Jones Industrial Average rose to 194.4 in March 1937, up 370% from the exaggerated 1932 crash low of 41.

ONE MORE INSULT FROM THE FED

Then as recovery was getting underway, the newly constituted Fed Board of Governors made a last ignorant gesture of obstructionism and doubled the reserve requirements in the 1936 to 1937 period, cutting short the recovery, and hamstringing the money supply. This demonstrated the continuing banker domination of the system.

It would not be until World War II that full monetary expansion was allowed and full employment was sought, when it was assured the employment and money would be channeled into destruction rather than production of infrastructure, houses, and other useful items. In that way the nation would remain dependent, and unable to resist the future monetary predations of the People of the Bank. The vehemence of Professor Soddy's statement opening this chapter now becomes understandable.

IF IT HAPPENS AGAIN…

If something like the Great Depression is again inflicted upon us, should Americans be blamed if they demanded more than money penalties from the financiers? Such matters are best handled by law. But what if the law proved too immature or too corrupt (watch the unfolding *Enron* case) to punish the perpetrators? Americans have shown great restraint toward those engaged in financial genocide, mainly because they haven't understood how the financiers are inflicting more than just financial harm on the citizenship, causing untold numbers of unnecessary and premature deaths. **Americans haven't understood that it is the financiers who are the ones initiating real violence, under cover of economic theory.**

FINANCING WW II - HOW EASY IT IS TO CREATE MONEY

The reader is reminded that we are examining the monetary history of this period, not all the factors leading up to war. It is far beyond the scope of this work to pass judgement on President Roosevelt's actions and motivations in this regard, for example in the events leading up to Pearl Harbor.

When WWII started in Europe in September 1939 the U.S. had eight million unemployed workers, a vast unused plant capacity, and:

"a huge reservoir of idle capital funds," wrote Studenski and Kroos.[39]

Knowing that the monetary expansion would go mainly into destruction, the financiers opened the monetary gates in America:

**"From July 1, 1940 to December 1, 1941 expenditures totaled $21.7 billion, far in excess of anything previously spent by the New Deal**. National defense accounted for 12.7 billion or about 59%." See how easy it is to create money? In mid 1941, prices were at 92% of the 1926 price level. From 1941 to 1946:

"...the only bank lending which showed an increase was that which constitute the financing of the War," wrote Studenski and Kroos.[40]

From July 1, 1940 to June 30, 1946, the Government was allowed (encouraged!) to spend $387 billion, of which 95% was for the military. During that period a total of $44.2 billion in taxes were collected (income tax rates had been raised to 19% for the low end, up to 88% for the high end). The rest, about $343 billion, was paid for by going into debt.

The national debt in February 1946 was $279.8 billion. The 31% of this debt ($87 billion) that was held by the commercial banks can be considered as money that they created out of thin air.

At the war's end, prices were at 105.8, based on 1926 prices = 100. When wartime price controls were lifted, prices rose to 169.5 in 1948, then fell to 157.3 in June 1950. But before accepting the economist's assertion that big price rises must follow such money creation consider:

1) Would cars have been more or less expensive if the created money had gone to build millions of new cars instead of military jeeps, trucks and tanks? Less.

2) If the money blown away on shells, airplanes and sunken ships had been spent on housing and consumer appliances, wouldn't that have lowered the cost of those items? Yes.

3) Had the billions wasted on innumerable campaigns of destruction gone instead into modernizing American plant and equipment, wouldn't that help keep the cost of goods low for many years to come? Yes, etc.

4) And aside from economic production, don't forget about the dead, not just the loss of their future production, but the devastation of their families.

**In other words, channeling the new money into production rather than destruction would have tended to create value, keep prices down, and not required unnecessary loss of life.**

## THE "GI" BILL AND THE MARSHALL PLAN

Two important governmental programs for rebuilding after WWII should be noted - the Marshall Plan to rebuild Europe, and the GI Bill for the United States. The Marshall plan was funded at only $12 billion, but had a positive effect, many multiples of that. The GI Bill provided funds for education to the hundreds of thousands of returning soldiers, who would become engineers, architects, scientists and teachers. Though funded at $14 billion, the actual cost can be considered to be less than zero, considering the productive abilities released and the many billions in taxes the government would collect on that. The GI Bill of Rights was said to have finally achieved (within a more limited group) many of the objectives Roosevelt had attempted earlier.

## PROPAGANDA TO RESURRECT CAPITALISM'S MORAL STANDING

Philosophically, the 1920s had been an orgy not only of speculation, but of so-called "free market" policies. It had been a time of the belittlement of government and a trusting belief in laissez-faire Capitalism and markets to serve mankind. The crash and depression put an end to that. Roosevelt's inaugural address in March 1933 had made it clear:

"...the rulers of the exchanges of mankind's goods have failed through their own stubbornness and their own incompetence, have admitted their failure and have abdicated. Practices of the unscrupulous money-changers stand indicted in the court of public opinion, rejected by the hearts and minds of men...The money-changers have fled from their high seats in the temple of civilization. We may now restore that temple to its ancient truths..."

Decades later, when many participants and memories were dead, concerted attempts began by a cabal of economists and financiers to shift blame for creating and prolonging the depression away from the financiers and the Federal Reserve System and onto the government. These economists couldn't admit that the crash and depression was a real life repudiation of their beloved theories and the financiers' activities. They created plausible sounding but false rationales to show that it couldn't have happened that way; it must have been the government's fault. Eventually they indoctrinated ideologically driven youngsters (today's Libertarians), who had no real experience or accurate knowledge of the depression, and were easy prey.

For example, Alan Greenspan shifted blame from the financiers to the government for prolonging the depression. Writing in support of the position of the orthodox economists in books such as Ayn Rand's *Capitalism the Unknown Ideal*, Greenspan repeated Menger's theory of the origin of money which places the money power into the hands of the merchants. Others repeated Baruch's vicious advice on allowing a total deflationary wipeout to occur, and blamed government interference for prolonging the depression!

**Greenspan used the Conservative's basic ploy - blaming the evils of the private Federal Reserve System on the government. He wrote:**

**"(T)he twelve regional Federal Reserve Banks (are) nominally owned by private bankers, but in fact government sponsored, controlled and supported."[41]**

This false view ignores the attempts of several past Democratic Chairmen of the House Banking Committee to pass laws to nationalize or do away with the Federal Reserve System. Henry Gonzales, Chairman until 1994, introduced such a bill.[42] Well, if the Fed is already a government entity, these economists shouldn't mind too much when it gets nationalized!

It was from this article and Greenspan's anointed position in the eyes of Ayn Rand's devoted followers that presidential candidate Nixon made Greenspan one of his campaign's economic advisors in 1967. Later as President, Nixon appointed him to the Council of Economic Advisors.

Then in 1987 he was appointed Chairman of the Fed.

Americans have watched Alan Greenspan's mannerisms and heard his nasal voice, and seen him in his $10 suits often enough on television to understand he is not an evil figure. Where then did Greenspan get such foolish notions? It was from the conservative Austrian school of Economics, which his mentor, Ayn Rand, had anointed as the only economists. Her book service brochures from the 1960s offering books by many authors on various topics allow only one author in the economics section - Austrian economist Ludwig Von Mises. The message was clear!

Another "Austrian" economist, F. A. Hayek, could rarely write two pages without condemning or attacking government in some way, whether deserved or not. This is most evident in his childish polemic *Denationalisation of Money*:

"The long depression of the 1930s...was wholly due to the mismanagement of money by government - before as well as after the crisis of 1929,"[43] and, "It was not 'capitalism' but government intervention which has been responsible for the recurrent crises of the past...a theme repeatedly argued by the late Ludwig Von Mises."

This chapter demonstrates that Hayek's statement is false. But whether he is merely wrong, or lying, only Hayek himself could say. It is difficult to imagine he was so ignorant of the facts presented here. Greenspan and the Libertarians were duped, but Hayek was probably prevaricating.

THE CATHOLIC REACTION TO THE DEBACLE

***Quadragesimo Anno***

In May 1931 Pius XI issued his encyclical *Quadragesimo Anno* (On Reconstruction of the Social Order) - a remarkable document. The title refers to the 40th anniversary of Leo XIII's *Rerum*

*20g.* **Pope Pius XI's 1931 encyclical *Quadragessimo Anno* is the Catholic Church's most explicit statement on the evils of finance capitalism. It condemned the money system as "a dictatorship" where "No one can breathe against their will."**

*Novarum* (On the Condition of Workers) which was the Church's initial effort at spiritual guidance in the modern industrial economy.

While the 1891 *Rerum Novarum* did call for justice to workers, it gave the impression of being more concerned with protecting the status quo of property relations and the social order. It indirectly attacked reformers such as Henry George. Remedies were to be left to charity!

But *Quadragesimo Anno* of 1931 was a different matter entirely and represented a major shift toward real justice. No longer would the Church automatically provide easy moral support for powerful systems and rich individuals doing evil under cover of "conservative" economic theory:

"(71) In the first place the worker must be paid a wage sufficient to support him and his family."

"(88) The right of ordering economic life cannot be left to a free competition of forces...(this poison spring destroys) through forgetfulness or ignorance the social and moral character of economic life, (and holds) that economic life must be...altogether free from and independent of public authority, because (the) market...principle of self direction...governs it much more perfectly than would the intervention of any created intellect. But free competition...cannot direct economic life - a truth...more than sufficiently demonstrated."

Pius XI then addressed some key monetary matters:

"(105)...it is obvious that not only is wealth concentrated in our times but an immense power and despotic economic dictatorship is consolidated in the hands of the few..."

"(106) *This dictatorship is being most forcibly exercised by those who since they hold the money and completely control it, control credit also and rule the lending of money. Hence they regulate the flow...of the life-blood whereby the entire economic system lives, and have so firmly in their grasp the soul...of economic life that* ***no one can breathe against their will.***"[44]

The encyclical pointed out with foresight in 1931 that this financial system was inexorably moving towards warfare:

"(107) This concentration of power and might...lets only the strongest survive...those who fight the most violently, those who give least heed to their conscience...,"generating three kinds of conflict:

"First there is the struggle for economic supremacy itself (then) the bitter fight to gain supremacy over the state in order to use in economic struggles its resources and authority; finally there is conflict between states themselves."

Very significantly, while noting the importance of charity, Quadragesimo Anno suggested that juridical actions - legislative remedies -

*20h.* **Archbishop of Canterbury William Temple's eloquent 1942 statement that banking had become the master, when it should be the servant of society, paved the way for the nationalization of the Bank of England in 1946.**

were also called for. This represented an important shift towards real reform. Although the church moves very, very slowly, when the theme matures, events could move with proper speed as they did in England after the War.

CHURCH OF ENGLAND DE-FANGS THE BANK OF ENGLAND

While the Catholics in America faced great difficulty translating these ideas into practice, not so the Anglicans in England. Perhaps two world wars and a worldwide depression all in less than 35 years, were enough. The Church of England took the greatest monetary initiative of the 20th century when it called for the nationalization of the Bank of England. Using typical English understatement, but making one of the most morally important public pronouncements on the Money Power of this or any other century, the Archbishop of Canterbury wrote:

"In the case of money, we are dealing with something which is handled in our generation by methods that are extremely different from those in vogue a century or half century ago. When there was a multitude of private banks, the system by which credit was issued may have perhaps been appropriate, but with the amalgamation of the banks *we have now reached a stage where something universally needed - namely money, or credit which does duty for money - has become in effect a monopoly...*

The private issue of new credit should be regarded in the modern world in just the same way in which the private minting of money was regarded in earlier times. *The banks should be limited in their lending power to the amount deposited by their clients, while the issue of newer credit should be the function of public authority.*

This is not in any way to censure the banks or bankers. They have administered the system entrusted to them with singular uprightness and ability and public spirit. But the system has become anomalous, and, as so often happens when anomaly has persisted through a long period of time, ***the result is to make into the master what ought to be the servant."***

Reverend William Temple,
The Archbishop of Canterbury,
London, September 26, 1942[45]

The Bank of England was nationalized in 1946. The Catholic Church could learn a lot from this courageous act of its younger offspring. But unfortunately it was no longer in England, but in America where the problem was now concentrated. The nexus of financial control, which had earlier jumped from Holland to England, had once again shifted westward, to the United States. But it cannot move westward again.

To summarize, In less than 20 years the Federal Reserve brought our money system, banks, exchanges and economy to utter ruin. The "fear of inflation" argument, used as an excuse for the bankers to do nothing positive, was carried to an absurd level in the middle of the century's worst deflation.

Again, it was government, not the banks, that rescued the situation. The crash also momentarily woke the Catholic hierarchy. The Pope condemned the money system as a financial dictatorship, and the Anglican hierarchy paved the way for nationalizing the Bank of England.

Bankers allowed a large creation of new money only when it was devoted to warfare, not the creation of values for life. Later their propaganda whitewashed what financiers had done, shifting the blame onto government, the organization that did most to mend the financial destruction.

The "free market" culture prevalent in the 1920s was re-established thanks in large part to the polemic writings of Ayn Rand, and the Austrian economists. The nations exchanges circumvented the regulations put into place by government, to stop another crash. They did this by using "derivatives" and by pressuring the Congress to remove the restrictions.

## *Notes to Chapter 20*

[1] Frederick Soddy, *The Arch Enemy Of Economic Freedom*, (London: self published, 1943), p. 6.

[2] Eustace Mullins, *The Federal Reserve Conspiracy*, (New Jersey: Common Sense Press, 1954), quoting Oct. 1917 Notes of Journal of Political Economy, p. 56

[3] Mullins, cited above, pp. 55-6.

[4] P. Studenski & H. Kroos, *Financial History of the U.S.*, (New York: McGraw Hill, 1952), p. 284.

[5] Mullins, cited above, p. 54.

[6] Mullins, cited above, quoting Walther Hines Page, Ambassador to Britain, March 5, 1917 letter to Woodrow Wilson, p. 55.

[7] Studenski & Kroos, cited above, p. 298.

[8] Milton Friedman & Anna Schwartz, *A Monetary History of the United States, 1867-1960*, (Princeton Univ. Press, Natl. Bureau of Econ. Res., 1971), p. 698.

[9] Friedman & Schwartz, cited above, pp. 196-210.

[10] Studenski & Kroos, cited above, p. 329.

[11] as quoted by Mullins, cited above, pp. 51-60.

[12] Mullins, cited above, pp. 50-60.

[13] Paul Einzig, *The Fight for Financial Supremacy*, (London: Macmillan, 1931).

[14] Lester V. Chandler, *Benjamin Strong, Central Banker*, (Washington: Brookings, 1958), quoting Leffingwell's comments to the Federal Reserve Board in Washington, DC, on November 24, 1919.

[15] Chandler, cited above, pp. 440-60.

[16] Studenski & Kroos, cited above, pp. 306-26.

[17] Studenski & Kroos, cited above, p. 336-40.

[18] Albert Feaveryear, *The Pound Sterling*, (Oxford Univ. Press, 1963), p. 353.

[19] as quoted by Mullins, cited above, p. 95.

[20] Mullins, cited above, quoting the Miller testimony.

[21] Elgin Groseclose, *Money: The Human Conflict*, (1934, Univ. of Oklahoma Press, 1976), pp. 223-25.

[22] Mullins, cited above, quoting H. Parker Willis, p. 96.

[23] Mullins, cited above, quoting H.Parker Willis, from The North American Review, May 1929, pp. 94-101.

[24] Chandler, cited above, pp. 460-62.

[25] as quoted by Mullins, cited above, p. 100.

[26] Antony C. Sutton, *Wars and Revolutions*, (Hoover Inst. on War, Revolution and Peace, 1974), on page 25 quotes Ernest & Trevor Dupuy's *Encyclopaedia of Military History*, (Harper and Row, 1970, p. 1198).

[27] Friedman & Schwartz, cited above, p. 299.

[28] Friedman & Schwartz, cited above, p. 345, footnotes quoting Harrison, Notes, vol.1, June 22, 1931.

[29] Robert de Fremery, *Money and Freedom*, (Self published, 1957), p. 61.
[30] as quoted in Friedman & Schwartz, cited above, p. 409.
[31] Friedman & Schwartz, cited above, pp. 410-11.
[32] Friedman & Schwartz, cited above, p. 457, quoting the *Report on the Availability of Bank Credit in the Seventh Federal Reserve District*, Submitted to the Secretary of the Treasury, GPO, 1935, pp. vi, 3.
[33] Studenski & Kroos, cited above, pp. 336-43.
[34] Studenski & Kroos, cited above, pp. 334-40.
[35] *Historical Statistics of the United States, Colonial Times to !970,* (Washington: U.S. Dept. of Commerce, Census Bureau, 1975), Series K 361-375, Series K 256-285, Series K 1-16.
[36] Studenski & Kroos, cited above, pp. 350-400.
[37] Lee Friar, *Reflections*, in *The Economics of Convulsion* by Harold E. Wills and Charles Walters Jr., (Kansas City, Mo: Acres USA, 1992), pp. 107-13.
[38] Thomas Paine, *Agrarian Justice*, Paris, 1797, *The Writings Of Thomas Paine, Vol 3*, edited by M. D. Conway, (New York: AMS Press, 1967), pp. 332-38.
[39] Studenski & Kroos, cited above, p. 436.
[40] Studenski & Kroos, cited above, p. 455.
[41] Alan Greenspan's *Gold & Economic Freedom* essay in Ayn Rand's *Capitalism The Unknown Ideal*, (New York: NAL paperback, 1967).
[42] HR4358 in the 97th Congress, July 31, 1981.
[43] F.A. Hayek, *Denationalisation of Money*, (London: Institute of Economic Affairs, 1978, 2nd edition), pp. 97, 127.
[44] *Quadragesimo Anno* and *Rerum Novarum* can be viewed at http://www.osjspm.org/cst/qa.htm
[45] As quoted by Bernard W. Dempsey, *Interest and Usury*, (London: Denis Dobson, 1948), p. v.

# CHAPTER 21

# GERMANY'S 1923 HYPER-INFLATION UNDER A PRIVATE CENTRAL BANK

"The terms of the peace appear immeasurably harsh and humiliating, while many of them seem to me impossible of performance...The League (of Nations) as now constituted will be the prey of greed and intrigue..."

Robert Lansing
U.S. Secretary of State, 1919

We now examine some of the monetary events that occurred on the enemy side, in World Wars I and II, especially the German hyper-inflation of 1923. Discussions of the dangers of inflation inevitably end up at this worst ever case in the West. Accompanied by economists' warnings of the dire results of governments printing paper money, the German hyper-inflation is used to promote the idea that only private bankers can be trusted to control society's money system.

However, as in other cases, when the monetary facts are actually examined it becomes clear that those private banking elements were deeply involved in the speculation that helped to bring down the Reichsmark. This was not stopped until the government repeatedly took decisive action against them. First, the broad historical context of this event:

## EMERGING GERMANY

Peter Spufford described how capital towns arose from the medieval period when the nobility set up hotels near their sovereign's main residence and left the countryside to spend at least part of the year near him. This formation of capital towns spurred the division of labor. Because Germany had no central monarchy, no capital city formed there; nor did as much division of labor develop in the later medieval period. Thus Germany was late to centralize.

In 1815 Germany had what could be considered a centralized national state with the formation of the German Federation. The major "German" finance houses of the medieval period had been quick students of Italian finance methods at Venice's German compound, the Foundacio De Tedeschi. Some, like the Fuggers of southern Germany, had grown to international prominence as factors in financing the election of emperors.

However, Portugal's opening of the Cape Route around Africa shattered geopolitical relations and from the 16th century Germany's relative importance declined as a middle station in East-West trade. The Cape Route to India circumvented them and shifted power away from Venice and the Mediterranean up to the North Sea area, as described in Chapters 6 and 8.

BAGHDAD RAILWAY

Germany began altering that situation in 1900 when the Deutsche Bank financed construction of the Turkish-Baghdad Railway. This meant German industry, already linked to Istanbul (the "Orient Express" line) could be directly linked to further eastern markets, circumventing Britain's naval supremacy. The reformation historian Tawney confirms the importance of this link and Hjalmar Schacht, one of 20th century Germany's key financial figures, noted that this railway really "irked" England.

There are other reports of British concern over German dynamism. Francis Neilson, a former British Member of Parliament and author of *The Makers of War* presented the viewpoint that England's old boy network didn't consider itself up to competing with Germany industrially.

In 1907 the widely respected American diplomat Henry White was instructed to ascertain British views. He met with his friend Arthur Balfour. White's daughter "overheard" (probably White's way of not directly violating secrecy pledges) one of White's conversations with Balfour as follows:

"Balfour (somewhat lightly) 'We are probably fools not to find a reason for declaring war on Germany before she builds too many ships and takes away our trade."

White: '…If you wish to compete with German trade, work harder.'

Balfour: 'That would mean lowering our standard of living. Perhaps it would be simpler for us to have a war.'

Balfour, reacting to White's shock 'Is it a question of right or wrong? Maybe it is just a question of keeping our supremacy.'"[1]

CORRUPT DIPLOMACY

European heads of state were still largely hereditarily selected. Court intrigue and the system of secret treaties played a large role and lent itself to warmongering. According to then member of Parliament, Francis Neilson, the British Parliament had not been informed that England was committed to a continental war to defend France, if necessary.[2]

Adding to the problem, the Schlieffen Plan for the emergency military mobilization of Germany did not allow time for diplomatic negotiations. Thus the assassination of Austrian Archduke Ferdinand in Sarajevo by anarchists was given the power of a trigger in starting World War One.

THE ECONOMIC SIEGE

Alfred E. Zimmern's rare 13-page monograph *The Economic Weapon,*[3] written during World War I, deserves attention because of its content and its source. According to Professor Carroll Quigley, Zimmern was part of an elite group which he called the "Anglo American Establishment."[4]

Zimmern sums up the situation on page one:

"What is the economic situation? It can be stated in one sentence: "The Central Powers are being besieged by practically the entire world and they have no means at their disposal for bringing the siege to an end."

Zimmern pointed out that this was the first time in history that such a large siege had been attempted, and Germany didn't think it was possible. "In December 1915 the Chancellor remarked 'Does anyone seriously believe that we can lose the war on account of a shortage of rubber?' Germany's war preparations were made on an estimate "of a war of one year's duration at the outside."

Then Zimmern indicated what was planned for Germany:

"What will happen in the normal course when peace is signed?…will the cessation of the physical blockade of German harbors by itself involve the raising of the siege?…But without raw materials there can be no industrial employment; and demobilization without employment ready to hand for the disbanded soldier spells social disorder…The

Allies...by their command of essential supplies control the demobilization of the German army and therewith the whole process of German recuperation.

"The whole civilized world will be faced...with the prospect of a shortage, if not a famine over a period calculated...at no less than three years." And "Some will have to go short. Who more naturally than Germany? It is not as if the boycott had to be organized. It will come about almost of itself unless special provision is made in the peace."

THE TREATY OF VERSAILLES, 1919

But Lord Lothian (who Quigley lists as a fellow member with Zimmern of the Anglo American Establishment), was the co-author of the treaty of Versailles[5] and it would not provide for a just peace. The Treaty of Versailles turned out to be an instrument of continuing warfare. Even at the time, it drew strong condemnation. The American Secretary of State Robert Lansing wrote:

"The impression made by it is one of disappointment, of regret, and of depression. The terms of the peace appear immeasurably harsh and humiliating, while many of them seem to me impossible of performance...The League (of Nations) as now constituted will be the prey of greed and intrigue..."

Lansing noted that:

"On May 17, I received Mr. Bullit's letter of resignation and also letters from five of our principal experts protesting against the terms of peace and stating that they considered them as an abandonment of the principles Americans had fought for."[6]

Francisco Nitti, the Prime Minister of Italy, wrote:

"...It will remain forever a terrible precedent in modern history that, against all pledges, all precedents and all traditions, the representatives of Germany were never even heard; nothing was left to them but to sign a treaty at a moment when famine and exhaustion and threat of revolution made it impossible not to sign...*In the old canon law of the Church it was laid down that every one must have a hearing, even the devil...the new society of nations, did not even obey the precepts which the dark Middle Ages held sacred on behalf of the accused.*"[7]

The cost of the war of all participants totaled three times the value of all property in Germany. She was eventually ordered to pay a staggering 1.7 billion marks a year (in foreign exchange) for 59 years, until 1988. Even worse, according to the normally circumspect banker, Hjalmar Schacht:

"The Treaty of Versailles is a model of ingenious measures for the economic destruction of Germany," adding:

"Every natural economic advance, every step toward the restoration of economic confidence was made impossible by the influence of the foreign political factor."[8]

Further complicating matters, immediately after the surrender, on November 9, 1918, the threatened leftist/communist coup was carried out, when the Revolutionary Council of Commissioners of the People overthrew the German government and temporarily took power.

## MONETARY DESTRUCTION OF GERMANY

England had financed 20% of WWI through taxation; France 0%; and Germany 6%. Schacht wrote that Germany's money supply rose from 7.2 Billion Marks in December 1914, up to 28.4 Billion Marks on November 7, 1918, the end of the open warfare. This meant that the circulation went from 110 to 430 marks per person.

An index of wholesale prices had risen from 100 in 1913 to 234 in late 1918, performing close to British indexes. The effect on working people was cushioned as the index of workmen's wages rose from 100 to 248 during the period.[9] Thus the 1st World War seriously damaged but didn't destroy Germany's money system. That came under the occupying forces.

## GERMANY'S 1923 HYPER-INFLATION BY A PRIVATE CENTRAL BANK

The great German hyper-inflation of 1922-23 is one of the most widely cited examples by those who insist that private bankers, not governments, should control the money system. **What is practically unknown about that sordid affair is that it occurred under the auspices of a privately owned and controlled central bank.**

Up to then the Reichsbank had a form of private ownership but with substantial public control; the President and Directors were officials of the German government, appointed by the Emperor for life. There was a sharing of the revenue of the central bank between the private shareholders and the government. But shareholders had no power to determine policy.[10]

The Allies' plan for the reconstruction of Germany after WWI came to be known as the Dawes Plan, named after General Charles Gates Dawes, a Chicago banker. The foreign experts delegated by the League of Nations to guide the economic recovery of Germany wanted a more free market orientation for the German central bank.[11]

Schacht relates how the Allies had insisted that the Reichsbank be made more independent from the government:

"On May 26, 1922, the law establishing the independence of the Reichsbank and withdrawing from the Chancellor of the Reich any influence on the conduct of the Bank's business was promulgated."[12] **This granting of total private control over the German currency became a key factor in the worst inflation of modern times.**

The stage had already been set by the immense reparations payments. That they were payable in foreign currency would place a great continuing pressure on the Reichsmark far into the future.

HOW IS A CURRENCY DESTROYED?

In a sentence, a currency is destroyed by issuing or creating tremendously excessive amounts of it. Not just too much of it but far too much. This excessive issue can happen in several ways, for example by British counterfeiting as occurred with the U.S. Continental Currency, and with the French Assignats. The central bank itself might print too much currency, or the central bank might allow speculators to destroy a currency through excessive short selling of it, similar to short selling a company's shares, in effect allowing speculators to "issue" the currency.

The destruction of an already pressured national currency through speculation is what concerns us in this case. A related process was recently allowed to destroy several Asian currencies, which dropped over 50% against the Dollar in a few months time, in 1997-98, threatening the livelihood of millions.

It works like this: First there is some obvious weakness involved in the currency. In Germany's case it was World War One, and the need for foreign currency for reparations payments. In the case of the Asian countries, they had a need for U.S. Dollars in order to repay foreign debts coming due.

Such problems can be solved over time and usually require some national contribution toward their solution, in the form of taxes or temporary lowering of living standards. However, because currency speculation on a scale large enough to affect the currency's value is still erroneously viewed as a legitimate activity, private currency speculators can make a weak situation immeasurably worse and take billions of dollars in "profits" out of the situation by selling short the currency in question. This doesn't just involve selling currency that they own but making contracts to sell currency that they don't own - to sell it short.

If done in large enough amounts, in a weak situation, such short selling soon has self-fulfilling results, driving down the value of the currency faster and further than it otherwise would have fallen. Then at some point, panic strikes, which causes widespread flight from the currency by those who actually hold it. It drops precipitously. The short selling speculators are then able to buy back the currency that they sold short, and obtain tremendous profits, at the expense of the producers and working people whose lives and enterprises were dependent on that currency.

The free market gang claim that it's all the fault of the government that the currency was weak in the first place. But by what logic does it follow that speculators take this money from those already in trouble? Currency speculation in such large amounts should be viewed as a form of aggression, no less harmful than dropping bombs on the country in question.

Industrialists should realize that when they allow such activity to be included under the umbrella of "business activity," they are making a serious error. They should help isolate such speculation and educate the populace on how destructive it is, so that it can be stopped through law.

Limitations could easily be placed on speculative currency transactions without limiting those that are a normal part of business and trading, while stopping the kind of transactions that are thinly disguised attacks on the country involved. Placing a small tax on such transactions would be a healthy first move.

TOO MANY GERMAN MARKS ISSUED

By July 1922 the German Mark fell to 300 marks for $1; in November it was at 9,000 to $1; by January 1923 it was at 49,000 to $1; by July 1923 it was at 1,100,000 to $1. It reached 2.5 trillion marks to $1 in mid November, 1923, varying from city to city.[13]

In the monetary chaos Hamburg, Bremen and Kiel established private banks to issue money backed by gold and foreign exchange. The private Reichsbank printing presses had been unable to keep up and other private parties were given the authority to issue money. Schacht estimated that about half the money in circulation was private money from other than Reichsbank sources.

CAUSE OF THE INFLATION:
SCHACHT'S FIRST "EXPLANATION"

There is often a false assumption made that the government allowed the mark to fall, in order to more easily pay off the war indemnity. But


*21a.* **This German hyper-inflation currency is the most widely known example in the West. But never discussed is that it occurred under a privately owned and controlled central bank, which actually helped speculators to attack the mark. (top: 20 thousand marks, February 1923; middle: one million marks, July 1923; bottom: 100 million marks, August, 1923)** since the Versailles Treaty required payment in U.S. Dollars and British Pounds, the inflationary disorder actually made it much harder to raise such foreign exchange.

Hjalmar Schacht's 1967 book, *The Magic of Money,* presents what appears to be a contradictory explanation of the private Reichsbank's role in the inflation disaster.

First, in the hackneyed tradition of economists, he is prepared to let the private Reichsbank off the hook very easily and blame the government's difficult reparations situation instead. He minimized the connection of the private control of the central bank with the inflation as mere co-incidence:

"The Reichsbank upon which this responsibility (to control inflation) fell could not make up its mind to take action. It held the view that it was useless to attempt to stabilize the currency so long as the Ruhr was occupied and the war debts remained unfixed." Schacht lamented:

"[The] ever growing extent the Reich had to resort to the Reichsbank if it was to prolong its existence, and because the point at issue was the survival of the Reich, the Reichsbank did not regard itself justified in refusing even after the passing in 1922 of the law which gave it formal autonomy. The legislation of 1922, which was intended to free the Reichsbank from the claims of the state, came to grief at the decisive moment because the Reich could not find any way of holding its head above the water other than by the inflationary expedient of printing banknotes."[14]

In other words they did it to save the government, assumedly making the new issues of Reichsmarks available for government expenditures.

THEN SCHACHT GIVES THE REAL EXPLANATION

Schacht was a lifelong member of the banking fraternity, reaching its highest levels. He may have felt compelled to give his banker peers and their public relations corps something innocuous to quote. But Schacht also had a streak of German nationalism, and more than that, an almost sacred devotion to a stable mark. He had watched helplessly as the hyper-inflation destroyed "his mark."

For whatever reasons, after 44 years he proceeded to let the cat out of the bag, with some truly remarkable admissions, which shatter the "accepted wisdom" the Anglo-American financial community has promulgated on the German hyper-inflation. But first, some monetary background to the events of 1923 are needed. Schacht gives the details.

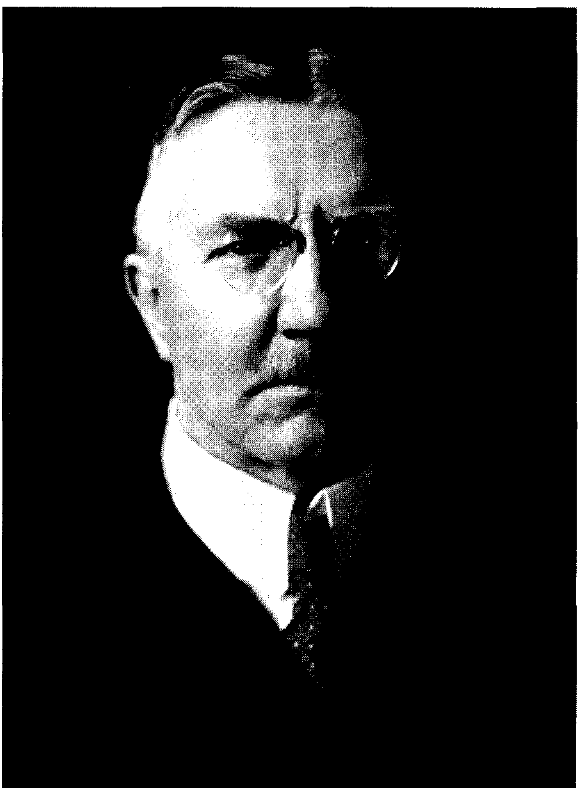
## STABILIZING THE MONETARY SITUATION

As the hyperinflation wreaked destruction many plans were put forward to stabilize the currency. In 1923 the Conservative monetary theorist, Karl Helfferich, advanced a plan basing the currency on rye grains and putting its administration into the hands of a private bank run by agricultural interests. The support of the farming community was not sufficient to have it adopted.

## INTRODUCING THE RENTENMARK

Because the Mark had been so badly ruined for 18 months, it was felt that psychologically an altogether different currency was necessary. Plans centered on a new currency to be called the Rentenmark. The plan was simple: introduce the new currency in a limited quantity and don't over-issue it so that it keeps its value and re-establishes confidence.

In order to create a psychological separation from the Reichsbank, the Rentenbank was set up to loan Rentenmarks to the Reichsbank; and



*21b.* **Hjalmar Schacht developed currency controls and bilateral trade methods for Germany to continue international trading, even after she had been stripped of her gold reserves in the early 1930s. De Fremery theorized that this independence from the gold standard was an important factor among English and American bankers in the progression to WWII.**

the Reichsbank issued Rentenmark credits. But the Rentenbank was not truly independent of the Reichsbank, through various regulations.

SCHACHT PUT IN CHARGE OF STABILIZING THE MARK

Schacht, with 23 years of banking experience, agreed to be made the government's Commissioner of Currency, a new position created to stabilize the currency. At the time, monetary theorists such as Helfferich were arguing that the German State wasn't powerful enough to "create money that would command public confidence and that only the business elements of the country acting of their own free will were competent to accomplish this task."[15] Schacht knew better.

THE GOVERNMENT STABILIZES THE CURRENCY

It took time to convince the population that the new currency would not be over-issued:

"The invention of the Rentenmark did not stabilize the mark, the battle for stabilization continued for a year, passing through many a difficult phase," Schacht wrote, asserting that it was not the Rentenmark but the subsequent credit restrictions on how many were created, that stabilized the currency.[16]

The formal structure of the Reichsbank had apparently not been altered in this stabilization period, but it was clearly the government and society that now actively exercised the monetary control:

"The concurrent political and economic difficulties of the Reich threatened rapidly to culminate in a catastrophe, when the government at length braced itself to the resolve to take into its hands once more the control of the destinies of the German people. In this policy the principle item was the endeavor to stabilize the mark."[17]

The Rentenmarks were put into circulation in three days, from November 15, 1923. They were not legal tender. There was no fixed relation to the fallen Reichsmark, and the Rentenmarks could not be used for international payments.

Schacht stopped all other money issuers and sent all Reichsbank holdings of private money back to their source for immediate payment, despite great howls of pain from all those private moneyers.

The Rentenmarks were expressly forbidden to be transferred to foreigners. This meant that speculators could not trade them for foreign exchange to support their speculations when prices went against them. Schacht's initial actions thus crushed the speculators, a necessary first step in most monetary reform:

"The speculators had learnt that the Reichsbank was now able, if it decided to do so, to put an end to all speculation on the foreign exchange market. The success of the campaign meant an immeasurable increase in the confidence of the public in the stabilization of the mark."[18]

How did Schacht determine the value of the Rentenmarks? By the "seat of his pants." On November 20, 1923, it was set at \$1 = 4.2 trillion Rentenmarks. Fixing it there was convenient because in peacetime it had been \$1 to 4.2 marks (Readers of Shacht's book published in England should keep in mind that billion in England means trillion in America). Schacht remarked that:

"There was no mathematical formula that could provide the solution. It was a question of instinct, and ultimately of experiment; but the form of the experiment remained one and the same - namely, the contraction of the legal currency."[19]

SCHACHT'S REVELATION

It was in describing his 1924 battles in stabilizing the Rentenmarks that Schacht made his revelation, giving the private mechanism of the hyper-inflation. Schacht was obviously very upset when the speculators continued to attack the new Rentenmark currency. By the end of November 1923:

"The dollar reached an exchange rate of 12 trillion Rentenmarks on the free market of the Cologne Bourse. This speculation was not only hostile to the country's economic interests, it was also stupid. *In previous years such speculation had been carried on either with loans which the Reichsbank granted lavishly,* or with emergency money which one printed oneself, and then exchanged for Reichsmarks."

"Now, however, three things had happened. The emergency money had lost its value. It was no longer possible to exchange it for Reichsmarks. *The loans formerly easily obtained from the Reichsbank were no longer granted,* and the Rentenmark could not be used abroad. For these reasons the speculators were unable to pay for the dollars they had bought when payment became due (and they) made considerable losses."[20]

Schacht is telling us that the excessive speculation against the mark - the short selling of the mark - was financed by lavish loans from the private Reichsbank. The margin requirements that the anti-mark speculators needed and without which they could not have attacked the mark was provided by the private Reichsbank!

This contradicts Schacht's earlier explanation, for there is no way to interpret or justify "lavishly" loaning to anti-mark speculators as "helping to keep the government's head above the water." Just the opposite. Schacht was a bright fellow, and he wanted this point to be understood. He waited until he wrote the *Magic of Money* in 1967. His earlier book, *The Stabilization of the Mark* (1927), discussed inflation profiteering but did not clearly identify the private Reichsbank itself as financing such speculation, making it so convenient to go short the mark.

***Thus it was a privately owned and privately controlled central bank, that made loans to private speculators, enabling them to speculate against the nation's currency.*** Whatever other pressures the currency faced (and they were substantial), such speculation helped create a one way market down for the Reichsmark. Soon a continuous panic set in, and not just speculators, but everyone else had to do what they could to get out of their marks, further fueling the disaster. This private factor has been largely unknown in America.

HJALMAR SCHACHT'S BACKGROUND

Why did the banker Schacht give these details after 44 years, when he could have easily "forgotten" about it? Probably because his sense of justice was deeply offended over the destruction of the mark aided by elements of Germany's business and financial community.

For hundreds of years Schacht's family lived in the Ditmarschen area between the Elbe and Eider rivers, a land of free farmers. Schacht studied German Philology, then did his doctorate on the English Mercantilists, demonstrating how they were aware of the quantity aspect of money from the 1500s and 1600s.[21]

Finally, Hjalmar Horace Greeley Schacht was his full name. His father was a naturalized American citizen who had returned to Germany as a newspaper editor. Horace Greeley was an important populist leaning U.S. newspaperman of the mid 1870s, and Hjalmar was probably influenced by his namesake's high reputation.

SCHACHT APPOINTED REICHSBANK PRESIDENT

In December 1923, Schacht was made President of the Reichsbank, but, before assuming office, he went to England for a meeting with Montague Norman, Governor of the Bank of England. Schacht wrote, "I have never engaged in academic controversy either with the nominalists or with the advocates of an index currency. I have invariably said frankly that I do not set great store by currency theories, but should be prepared at any moment to accept any currency adopted by America and England."[22]

## SPECULATORS TAKE ANOTHER SHOT

Legitimate credit demands led to a rapid growth of credit extended by the Reichsbank and the Rentenbank from 609 million Rentenmarks at the end of 1923, to 2 billion at the end of March 1924. Sensing weakness, the speculators again moved in for a kill, ignoring the law regarding foreign exchange purchases.

In March of 1924 Schacht's regulations (he calls them 'instructions') were being violated by the banks:

"(W)hereby foreign exchange purchase orders were to be executed by the banks only if full cover in German currency was provided by the purchaser, had not been heeded by various banking firms." These banks, including one of the largest (Schacht doesn't name it), impudently ignored Reichsbank reminders, so their bills were denied re-discounting by the Reichsbank, effectively blocking them and ending the violations.

From April 7, 1924 the Reichsbank refused to issue new credits for two months. "The Reichsbank plumped for the stability of the mark," wrote Schacht. The speculators had to turn their foreign holdings over to pay their debts as their trading positions against the Rentenmark lost money. In this way the Reichsbank increased its foreign exchange reserves from 600 million marks worth, at beginning of April 1924, to more than double that by August 7, 1924.[23] This indicates a still immense amount of anti-Mark speculation:

**"...and the country was still filled with numbers of such speculators, who were not in the least concerned as to whether their good name and reputation suffered so long as they could pocket the profits," wrote Schacht.[24]**

## HARSH DEFLATION IMPOSED

The contraction pursued by Schacht was brutal. One month money rates went from 30% to 45%. Overdraft charges rose from 40% to 80%! After July 1924 they began falling. Schacht's restriction of money was so harsh that the German government-operated Post and Railways formed their own banks and began building capital much faster than the private sector.

By the end of 1924 merchants and others were treating the Rentenmark and the old Reichmark as equal and Schacht converted the Rentenmarks into Reichsmarks. He had always been against the Rentenmarks, considering them a monetary error:

"I made every endeavor to take the Rentenmark out of circulation as quickly as possible…to this end the Reichsbank gave the Rentenmark parity with the new Reichsmark" and converted them into Reichsmarks.

## THE DAWES PLAN

In 1923 the League of Nations had invited General Charles Gates Dawes to chair a committee to deal with the controversial problem of German reparations payments. The Dawes Report recommended reducing the reparations from 132 billion marks down to 37 billion marks. The U.S. would loan Germany money for reparations payments to France and England, which countries would then be able to pay some of their war debts to the U.S. General Dawes was a banker who owned the Central Republic Bank and Trust Company of Chicago.

The Allies implemented the plan; Dawes shared the Nobel Peace Prize for 1925 with Austen Chamberlain, and then became Vice President of the United States from 1925-29, under President Coolidge. In 1932 Dawes became chairman of Hoover's depression era Reconstruction Finance Corporation (the RFC), but then Dawes' bank failed and became the largest loss of the RFC, costing the U.S. Government $90 million.

When the Dawes Plan experts structuring a new Reichsbank law wanted to lengthen from 10 to 50 years the length of time between the German Government's periodic renewal of the note issuing power of the Reichsbank, Schacht managed to convince them of the need for some Government approval of Reichsbank leadership. The Dawes committee proposed a revenue sharing arrangement of roughly 40% to the private Banks shareholders, and 55% to the government.[25] But eventually it was agreed the Shareholders got half the first 50 million marks profit, 25% of the 2nd 50 million profit, and 10% of profits thereafter.

## FOREIGN LOANS USED CAREFULLY

After the Dawes Plan loan to the Reichsbank came through in 1924, foreign credits began to pour in. Foreign bankers had confidence in Schacht. He was against the loans and insisted that any foreign borrowings only be to finance production, not luxury or consumption. This policy, from 1924 to 1929, resulted in Germany establishing Europe's most modern factory system of the period.

In July 1925 laws were passed to go back and examine and adjust inflation transactions. Injured parties could receive up to 25 % of the real value of property they had exchanged for the bad paper. Schacht would resign the Reichsbank Presidency in 1930, in protest over some economic rulings of the Allies. In 1932 the WWI war reparations claims were buried at the League of Nations in Geneva.

## HITLER TAKEN BY FEDER'S MONETARY VIEWS

When World War I ended, a destitute Adolf Hitler was given an assignment by German Army intelligence to watch a tiny political group called the German Workers Party. He attended a small meeting where Gottfried Feder's monetary views made a very deep impression on him.

The basis of Feder's ideas was that the state should create and control its money supply through a nationalized central bank rather than have it created by privately owned banks, to whom interest would have to be paid. From this view was derived the conclusion that finance had enslaved the population by usurping the nation's control of money.

Feder's views could easily have originated from the work of German monetary theorists such as George Knapp, whose book *The State Theory of Money* (1905) is still one of the classics in the monetary area. Right

*21c.* **Gottfried Feder's monetary views deeply impressed Hitler when he joined the tiny German Worker's Party. Feder's ideas were only partially put into effect by the Nazis during the Great Depression; yet Germany quickly recovered while America and England remained mired in depression. It was not armaments spending, but mainly middle class housing and then roads that were built.**

on page one, Knapp got it right:

"Money is a creature of the law. A theory of money must therefore deal with legal history."

Knapp describes the invention of fiat money in these terms:

"The most important achievement of economic civilization, the chartalism of the means of payment [using tokens for money]." For Knapp, the determination of whether something was money or not was:

"Our test, that the money is accepted in payments made to the States offices."[26]

Near the end of that book, Knapp casually mentions how German monetary theorists of his day and earlier would study and discuss American monetary theories. Thus the ultimate source of Feder's viewpoint may have been the ideas of the American Greenback movement of the 1870s.

Unfortunately, Feder's monetary views were mixed up with an all-consuming anti-Semitism. While the origins of those feelings in Germany at that time are beyond the scope of this book, some attention should be drawn to the strange personage of H. S. Chamberlain, an early 20th century figure who helped instigate racially based anti-Semitism in Germany.

## H. S. CHAMBERLAIN PROMOTES RACISM

An Englishman by birth, Houston Stuart Chamberlain had been brought up in France with French as his mother tongue. But "at age 27 he accomplished the astounding feat of acquiring a new nationality." [27] He became thoroughly German, wrote two books on the great composer Richard Wagner, eventually marrying one of his daughters. Chamberlain's family ranked high in the British power structure; his uncle Neville ("peace in our time") Chamberlain was later Prime Minister of England.

In 1910 Chamberlain published *Foundations of the 19th Century* - a thousand pages in two volumes. The book made him a trusted confidant at Kaiser Wilhelm's court. The book is like a sandwich - the first section is readable; the next half is a jumble of mostly rambling emotional generalities; and the concluding section is again readable.

German and other biblical scholars had been examining Judaism, Christianity and the Bible on a historical basis. They had worked out a fairly good idea of the Old Testament's various authors in terms of their periods and their political motives. The Bible was being critically analyzed as an historical document rather than as the word of God. This developing knowledge had important negative implications for Judaism and for Christianity as well, especially those sects that had deified the Bible as the absolute word of God.

Chamberlain's *Foundations* over simplified and distorted these conclusions and redirected them into a racial attack on the Jews. The key to Chamberlain is that he based this attack on race, not on culture, not on particular activities or deeds. Anticipating the objection that there are good and bad among all groups, Chamberlain incredibly wrote:

"There are no good and bad men…on the other hand there are certainly good and bad races."[28]

Who Chamberlain really served can be guessed from those his book supported and those he attacked. Germany was about half Catholic and half Lutheran. He attacked Luther; he attacked Catholicism; he praised Calvin as a purely religious reformer.

Chamberlain supported William III^rd^ of Orange and the Puritans, "The glorious Puritans," he calls them. "It was about the year 1700 when William of Orange had banished the treacherous Stewarts and finally laid the foundations of the constitutional state," he wrote.[29]

This is the same William III^rd^ whose regime quickly allowed the nefarious Bank of England to be founded as discussed in Chapter 11.

Chamberlain attacked Aristotle for "fettering science," when it was Aristotle who helped invent science. His history ignored the great body of work the Catholic Scholastics did for economic justice, as if to say *forget about isolating anti-social behavior; just look at race.*

Thus among Chamberlain's "friends" are those whom this book has identified as directly connected with monetary trouble making. Some of those he attacked are among our monetary heroes. His emotional, racial attack against Judaism was very harmful for Germany and that may not have been an accident.

SCHACHT BATTLES FEDER

When the National Socialists came to power, Schacht was reappointed head of the Reichsbank, partly to reassure German big business and foreign bankers. Schacht battled against Feder's un-orthodox monetary views:

"Nationalization of banks, abolition of bondage to interest payments, and introduction of state Giro 'Feder' money, those were the high sounding phrases of a pressure group which aimed at the overthrow of our money and banking system. To keep this nonsense in check I called a bankers' council which made suggestions for tighter supervision and control over the banks. These suggestions were codified in the law of 1934...In the course of several discussions I succeeded in dissuading Hitler from putting into practice the most foolish and dangerous of the ideas on banking and currency harbored by his party colleagues."[30]

Conrad Heiden noted that:

"Industry did not want to put economic life at the mercy of such men as Gregor Strasser or Gottfried Feder, who marching at the head of small property owners incited to revolution, wanted to hurl a bomb at large scale wealth. Feder announced that the coming Hitler government would create a new form of treasury bills, to be given as credits to innumerable small businessmen, enabling them to re-employ hundreds of thousands and millions of workers. Would this be inflation? Yes ! said Walter Funk, one of the many experts who for the past year or two had advised Hitler; an experienced and well known finance writer, collaborator of Hjalmar Schacht and, in Hitler's own eyes, a guaranty that big business would treat him as an equal...Hitler decided to put an end to the public squabble by appointing Goring to [oversee the questions]."

Feder's faction was then given the four year plan to keep them busy.[31]

## FEDER LOST

Feder quickly lost the battle with Schacht and the German business establishment. Little is written about this. Perhaps he was in over his head monetarily, or maybe he just lost his confidence in opposing centuries of English political economists who were quite good at pretending they knew what they were doing. Feder wrote of his monetary plan:

"Intensive study is required to master the details of this problem... a pamphlet on the subject will shortly appear which will give our members a full explanation of this most important task...."[32] But this was 1934, which means he hadn't clearly reduced the problem to written form since 1919, over 15 years earlier.

"When the time comes we shall deal with these things in further detail...," Feder wrote, but indeed his party was in power, and the time had come.

Feder was "put out to pasture" by the National Socialists, serving as an under secretary in the Ministry of Economic Affairs. He was later transferred to commissioner for land settlement, and then completely sidetracked as a lecturer at the Technische Hochschule in Berlin.

BUT "FEDER MONEY" WORKED WELL

Hitler and the National Socialists came to power on January 30, 1933. Germany's foreign exchange and gold reserves had dropped from 2.6 billion marks in late 1929, down to 409 million in late 1933, and to only 83 million marks in late 1934.[33] According to classical economic theory Germany was broke and would have to borrow, but Germany was to demonstrate that "classical" monetary theory is not very accurate.

This period of German monetary history has received far too little attention in English. On May 1, 1933 Hitler outlined the 1st Reinhardt Program - a four-year plan to end unemployment by attacking it on several fronts:

* Spending 1 billion marks worth of "employment creation bills."
* Tax benefits for industry, agriculture, and the employment of domestic help.
* Marriage bonus loans up to 1,000 marks and
* Government control of the money and capital markets, under Schacht.

Although elements of this program had already started under the predecessor Von Papen and Schleicher Regimes, they had not been all out efforts against unemployment.

On May 31st, the German government decided to issue 1 billion marks of short term public works bills, designated to pay for specific infrastructure projects:

"These were negotiable certificates paid out to employers who undertook projects of replacement or maintenance projects. Anyone who equipped a factory with new machines or who had his house repainted could finance his operations with these work drafts...," wrote Heiden.[34]

These bills paid about 4 ½% interest, and as they were taken into the banking system, they were renewed indefinitely, and made eligible for rediscounting by the Reichsbank. This means that they became part of the underlying basis for the nation's money supply, along with gold and foreign exchange and long term Government Bonds.[35]

The author has seen these bills referred to as "Feder money," and as "work drafts" (Arbeits-Schatzanwersungen). Schacht later referred to MEFO bills, mentioning no connection with Feder.

Many of the bills never found their way to the Reichsbank, since the interest they paid was an incentive for banks and others to hold onto them. Roberts estimated that as much as 15 billion marks worth of such bills were issued.[36] Heiden made a lower estimate:

"All in all the public Treasury poured out approximately 3 billion marks...for projects which according to the view hitherto prevailing (e.g. Schacht's) in those times of crisis, were senseless or at least unnecessary...."[37]

Guillebaud also estimated an upper limit of 15 billion marks of all types of bills used to finance public works in this period, but noted that:

"No exact figures exist for the circulation of employment bills, but they can be estimated with reasonable accuracy at 1.2 billion RM at the end of December 1933, and at 2.6 billion RM a year later."[38]

When the process started in 1933, Reichsbank holdings of all such instruments, including normal treasury issues, totaled 3.03 billion marks. At the end of 1934 total holdings were 3.86 billion and at the end of 1936 there were 4.91 billion marks.[39]

*Thus Germany did not take the full step and create a German equivalent to the American Greenback.* The Greenbacks themselves were money, had no interest payments due on them and did not add to any national debt. These German infrastructure bills were a form of debt certificate, promising to pay money; they paid interest and did add to Germany's national debt.

But this very close money substitute still had dramatic effects. They were an excellent way to get purchasing power into the hands of newly employed workers. Unemployment had been at six million in 1933, and was down to around one million at the end of 1936. Furthermore, whereas the American Greenbacks had been spent mostly on warfare and destruction, the "Feder money" had gone almost entirely into public works projects, especially the construction of new middle class housing. In 1934 there were 283,995 dwellings built compared to 141,265 in 1932. Then there were the thousands of kilometers of Autobahn construction.[40]

Thus it can be argued that the cause of Hitler's immense popularity among Germans was that he temporarily rescued Germany from English economic theory. For while these activities strongly benefited the German middle and lower classes, they were of great concern to some foreign bankers. Although Germany's move away from gold was more a matter of necessity than choice, it still threatened "vested interests." Robert de Fremery quotes from the June 1940 National City Bank Bulletin which admitted that:

"...not only the United States but other countries as well have large vested interests in gold. The British Empire alone accounts for nearly half of the gold output of the world, and in many other countries gold is an important national asset. *These countries would not look with favor upon the displacement of gold as a monetary metal*; and even in the event of political changes resulting from the war these vested interests will remain, though possibly shifted to other national jurisdictions."[41]

The reader will notice that these "vested interest" countries were the ones that warred with "goldless" Germany. De Fremery thought this could have been one of the causes of the Second World War. However, that decision may have been made earlier, and itself led to Germany being without gold. Perhaps she was expected to borrow gold internationally, and that would have meant external control over her domestic policies. Her decision to use alternatives to gold, would mean that the international financiers would be unable to exercise this control through the international gold standard, as described in Chapter 22, and this may have led to controlling Germany through warfare instead.

SCHACHT ATE SOME CROW OVER FEDER MONEY

Schacht clearly had to "eat crow" and swallow his own words as regards the new monetary issues that he earlier condemned. Thirty years later he justified his change of theory:

"...it was repeatedly asked whether the success of the MEFO bill scheme did not mean that whenever there was a shortage of capital savings one could compensate by replacing such capital savings with credits granted by the central bank, and thus by money specially granted for the purpose. The English economist J.M. Keynes has delt with the problem theoretically, and MEFO transactions prove the practical applicability of such an idea."[42]

But Schacht insisted that certain conditions must exist. There had been no stocks of raw materials; factories were empty; machines were idle and 6 ½ million willing men were unemployed: "The capital which could be expected to result from such developments (putting men to work) was used in advance to grant credit through the MEFO transactions."[43]

SCHACHT FIRED OVER THESE MATTERS

These bills were used from 1934 to 1938. Schacht relates how he got himself fired by refusing to continue renewing the bills:

"In January 1939, the Reichsbank handed Hitler a memorandum in which it indicated its refusal to grant the Reich any further credits. The consequences were drastic. On January 19, I was dismissed from my office as President...on the following day Hitler issued an edict which ordered the Reichsbank to grant the Reich all credits for which the Fuhrer asked. It is true the MEFO bills were now honored when they came due, but only with the inflated money produced by the printing presses. The second inflation had begun."[44]

Schacht's firing was not made public for five months. His refusal to continue financing the Reich was probably what saved him at Nuremberg.

## THE AMERICAN PROFESSORS ATTACK

In 1948 a number of American professors were given the task of devising a currency reform for defeated Germany. The Morgenthau-Tannenbaum plan introduced the Deutsche mark. Initially everyone received 40 DMarks. Employers received 60 DM per employee. Authorities received a month's requirements, post and railways two weeks worth.

But all money claims, savings accounts, debts, etc. were reduced to 1/10 their nominal amount. On the other hand, shares, properties and other material assets remained undiminished! This represented an unfair redistribution of wealth to the rich. Schacht noted that the poor mans assets were in his savings account, while the assets of the rich were in their properties.

"This transmogrification was...a deliberate brutal interference with the whole social structure of German society, more diabolic in its results than the inflation of 1923...here malevolent intention was involved," wrote Schacht in 1967.

## DEUTSCHE BUNDESBANK FORMED AS A GOVERNMENT OWNED BANK

After World War II, American General Lucius Clay wanted the German Government to have more say in running its central bank. In 1956 the present Deutsche Bundesbank was formed by the merger of the Deutsche Laender Bank with the Berlin Central Bank and the Land Central Banks from the various regions of Germany. The Bundesbank is a federal corporation owned by the German government.

The Bundesbank issues the currency, sets interest and discount rates, and sets reserve requirements for the banking system. Its main guide for determining monetary policy is the level of its M3 money stock, which counts currency and non bank deposits in credit institutions, including: sight deposits, time deposits (under four years) and savings deposits (at three months notice).

Officers and directors are nominated by the Federal Cabinet and appointed by the state president. The Bank has been successfully insulated from political domination. While the Bank is required to support the general economic policy of the Federal Cabinet, it must do so in a manner consistent with its primary responsibility: to regulate the amount of money and credit in the economy with the aim of safeguarding the currency. This is stated in oversimplified form, as maintaining "price stability."

This policy has derived partly from the horrible experience of the 1923 hyperinflation, and the ten for one devaluation after World War II, as well as from the influence of people like Hjalmar Schacht.

## THE BUNDESBANK'S IMPRESSIVE RECORD

The Bundesbank is widely recognized as one of the best central banks in the world, along with the Swiss National Bank. This has resulted from a combination of factors: it has been run for the national interest, not for private profit; its management has a strong public service tradition; and the German people have worked very hard. Up to the mid-1960s the German government ran budget surpluses, and it remained a net creditor until 1974.[45] This saved the nation large amounts that would have gone for interest payments, had Germany financed government by borrowing, the way the U.S. has.

Moreover, when an American learns of the highly diverse nature of banking in Germany, with the many different types of institutions designed to fulfill particular needs, the word that comes to mind is "service."[46] Unfortunately in America the word that most often comes to mind regarding our ever consolidating, monolithic, fee raising banking establishment, is "rip off."

## MUCH GREATER CHALLENGES UNDER THE EMU

At first the Bundesbank management resisted joining the European Monetary Union. It signed on only after Germany's political leadership threatened changes in the law organizing the Bank. Some momentous changes will be needed to operate the EMU successfully. It will not for long have certain luxuries that the Bundesbank has been able to enjoy.

For example, the Bundesbank has relied on foreign trade surpluses to obtain U.S. dollars, which constitute a large part of its reserves: about $80 billion, or 33%, at present (early 1998). These dollars have served as the basis for issuing currency and credit in Germany. Furthermore these dollar reserves are invested at interest.

The fact is that the EMU, if it is to be independent, must have a rational and practical substitute for using the Dollar as a reserve, and to date the EMU has not properly faced this pivotal matter, which we discuss in detail in Chapter 23.

SCHACHT FINALLY SEES THE LIGHT

Schacht began his banking career as a believer in the gold standard, the system then used in England and America. But by 1967, it appears he had come to agree with some of Gottfried Feder's "unorthodox" monetary views:

"Modern paper money, the banknote is backed by its creator, the state..."

Thus Schacht made a monetary pilgrimage similar to that of Thomas Jefferson, Alexander Del Mar, and many others, away from the primitive commodity view of money as metal, to an awareness of the "nominal," fiat nature of money as being based in law.

"The granting of credit is unthinkable without a central bank. No central bank can be allowed to act against the government of the country. The government is over the central Bank...A central bank cannot allow any competition," wrote Schacht.[47]

But then Schacht qualified this, stating that a higher law above both the government and the central bank is the constancy of the value of money. Stated in a more political manner, he is saying is that above both the central bank and the government is the bondholder.

Schacht insisted that only by keeping the currency stable could the small savers ever have a chance to accumulate substantial savings. He rejected their use of investments as indoctrinating them into gambling.

However, the use of well managed instruments such as balanced mutual funds can now overcome this objection. And after all, when unemployment caused by an overly restrictive monetary policy strikes, it is the small saver who generally suffers most.

**In Summary**

An examination of the German hyperinflation of 1923 shows that the simplistic anti-governmental interpretation of the economists and financiers is without basis. Nearly the opposite of what they contend, was true: the hyperinflation followed the complete privatization of the German central bank and elimination of governmental influence on it.

Again it was governmental action - this time the German government - not private bankers - that rescued the monetary situation.

One could not ask for a more dramatic contradiction of the English school's interpretation. This leaves that school without any valid historical justification for its anti-government prejudice concerning the control of money systems. However, the author does not expect this to alter their monetary stance against the public interest.

## *Notes to Chapter 21*

[1] Allan Nevins, *Henry White: Thirty Years of American Diplomacy*, (New York: Harper Bros., 1930), pp. 257-58.

[2] Francis Nielsen, *The Makers of War*, (Appleton, WI: Nelson Publishing Co., 1950), pp. 32-47

[3] A.E. Zimmern, *The Economic Weapon*, (New York: George Doran), 1913-17.

[4] Prof. Carroll Quigley, *The Anglo American Establishment*, (New York: Books In Focus, 1982).

[5] Konrad Heiden, *The Fuerher*, (Boston: Houghton Mifflin, 1944, written 1934), pp. 639-49.

[6] Robert Lansing, *The Peace Negotiations*, (Boston: Houghton Mifflin, 1921), pp. 272-75.

[7] Francisco Nitti, *The Wreck of Europe*, as quoted by Nielsen, cited above, p. 151.

[8] Hjalmar Schacht, *Stabilization of the Mark*, (London: George Allen & Unwin, 1927), pp. 46-51.

[9] Schacht, cited above, pp. 10-25.

[10] Schacht, cited above, pp. 116-7.

[11] Schacht, cited above, pp. 116-7.

[12] Schacht, cited above, p. 50.

[13] Schacht, cited above, pp. 50-51.

[14] Hjalmar Schacht, *The Magic of Money*, (London: Oldbourne, Trans. P. Erskine, 1967), pp. 65-6.

[15] Schacht, *Stabilization of the Mark*, cited above, p. 84.

[16] Schacht, *The Magic of Money*, cited above, p. 68.

[17] Schacht, *Stabilization of the Mark*, cited above, p. 89.

[18] Schacht, *Stabilization of the Mark*, cited above, p. 112.

[19] Schacht, *Stabilization of the Mark*, cited above, p. 102.

[20] Schacht, *The Magic of Money*, cited above, p. 70.

[21] Norbert Muhlen, *Schacht - Hitler's Magician*, (New York: Alliance, Longmans Green, trans. Dickes, 1939),

[22] Schacht, *Stabilization of the Mark*, cited above, p. 208.

[23] Schacht, *The Magic of Money*, cited above, p. 72.

[24] Schacht, *Stabilization of the Mark*, cited above, p. 159

[25] Schacht, Stabilization of the Mark, cited above, p. 181.

[26] George Knapp, *State Theory of Money*, (London: Macmillan, 1924), pp. 92-95.

[27] Konrad Heiden, *Der Fuerher, Hitler's Rise to Power*, (Boston: Houghton Mifflin, trans. Ralph Manheim,1944, written 1934), p. 223.

[28] Houston Stuart Chamberlain, *Foundations of the 19th Century*, (New York: , John Lane, trans John Lees, 1912), p. 490.

[29] Chamberlain, cited above, v. 2, p. 387.

[30] Schacht, Magic of Money, cited above, p. 49

[31] Heiden, cited above, p.480.
[32] Gottfried Feder, *Hitler's Official Program*, (New York: George Allen & Unwin, 1934, repr. New York, Howard Ferbig, 1971), p. 59, 92.
[33] Stephen M. Roberts, *The House that Hitler Built*, (New York: Harper Bro., 1938), pp. 146-7.
[34] Heiden, cited above, p. 662.
[35] Roberts, cited above, pp. 160-163.
[36] Roberts, cited above, p. 165.
[37] Heiden, cited above, p. 662.
[38] C.W. Guillebaud, *The Economic Recovery of Germany 1933-1938*, (New York: Macmillan, 1939), p. 53.
[39] Roberts, cited above, pp. 164-69.
[40] Heiden, cited above, p. 663.
[41] Robert de Fremery, *Money and Freedom*, (San Francisco: self published, 1957), pp. 117-8, quoting the National City Bank Bulletin of June, 1940.
[42] Schacht, *The Magic of Money*, cited above, p. 116.
[43] Schacht, *The Magic of Money*, cited above, p. 116.
[44] Schacht, *The Magic of Money*, cited above, p. 117.
[45] Ellen Kennedy, *The Bundesbank*, Council on Foreign Relations, 1991.
[46] See Francke & Hudson, *Banking and Financing in West Germany,* (New York: St. Martin's, 1984).
[47] Schacht, *The Magic of Money,* cited above, p. 76.

# CHAPTER 22

# INTERNATIONAL MONETARY ORGANIZATIONS

"There is no international law of money
and there can never be one...for the law of money
is an important part of domestic law."
Alexander Del Mar, 1899

"There is no universal money."
Henry George, 1897[1]

"There is no such thing as an international currency."
Hjalmar Schacht, 1967

International monetary institutions are a recent development in human social organization, beginning only in the mid-19th century, if we count the Latin Monetary Union as such an organization. But as the development of warfare, political organization, rapid transportation, instant communications, and world trade advanced, the possibililty of international law emerged; and the need and viability of international institutions to smooth the way in the monetary area became clear.

This development has been made more difficult by the immaturity of national legal systems and the misdirection of monetary thought that resulted in the near religious enthronement of the international gold standard in the 19th and early 20th centuries. Since the system was advertised as "automatic," little need was recognized (except by those who ran it) for organizations or government to administer it.

Those benefiting from control of that system used their power of the purse to effectively dominate the schools of economics, assuring that the economists trained there would be "fixed" regarding those concepts. A trusting belief in the workings of the gold standard was so well entrenched that a remnant of it continues today, especially among conservative and religious groups, which can be characterized as well meaning, but monetarily illiterate.

But all of the plausible sounding gold standard theory could not change or hide the fact that, in order to function, the system had to mix paper credits with gold in domestic economies. Even after this addition, the mixed gold and credit standard could not properly service the growing economies. They periodically broke down with dire domestic and international results.

The worst such breakdown, the Great Crash and Depression of 1929-33, described in Chapter 20, can be traced directly to England's gold standard moves from 1925 to 1931; and this breakdown occurred in peacetime. China was not on the gold standard and was hardly affected at all by the Great Depression. It was widely noted that those countries did best that left the gold standard soonest.

## THE PROBLEM OF INTERNATIONAL PAYMENTS

The problem originates in the nature of money as a creature of the legal system. This makes money a national rather than an international instrument. Because international law is still very limited, so is the possibility of international money at this time; but that could change rapidly.

Several diverse observers have noted the "nationality" of money: Alexander Del Mar commented on this limitation in most of his monetary writings. In 1967, Hjalmar Schacht observed, "There is no such thing as an international currency."[2] But just two years later the International Monetary Fund (the IMF) introduced the SDR (Special Drawing Rights), which is intended as a kind of international money reserve for governments.

## EARLIER EXAMPLES OF INTERNATIONAL PAYMENTS

Egypt had a central banking system that could effect payments through branches in various cities. In its near-2,000 year history, Rome never used a central banking system within its territory, and the Old

World Order carried on international trade in kind, or transported gold and silver in a form of barter.

In the medieval period the great regional trading fairs, held under the auspices of various princes, used an extra-territorial payments clearing mechanism for participants from various countries. They also had the ability to arrange for credit and deferred payments to be made at another fair, in a different jurisdiction.

The Knights Templar organization could clear payments across borders without shipping metal, by balancing credits and debits in different countries. From the early 1700s the Bank of England could be drawn upon to effect payments around the world.

# THE INTERNATIONAL GOLD STANDARD

**"Gold may not be capricious, but the men who manipulate gold between countries are capricious."**

**Robert de Fremery[3]**

After England demonetized silver in 1816, the Latin Monetary Union followed in the 1860s (see Chapter 18). So we consider that the international gold standard dominated from the mid-1800s to 1931.

However, it was well recognized that international trade was almost entirely an exchange of goods. In theory, when a country's imports and exports got out of balance, it would have to import or export gold to bring them into balance. For example, if a country imported more than it exported, enough gold to make up the difference would be shipped abroad. In theory this kept imports and exports in line:

"Any important dis-equilibrium in the balance of trade will cause gold to flow, and the movement of (gold) will set in motion forces which remove the initial cause of the disturbance."

That's how a 1935 study of British gold movements by W.E. Beach phrased it. The original theory held that these "forces" worked by changing the price level of goods and services in the country that was out of balance. With less gold in the country, in theory prices would fall, causing exports to rise, leading to a balance in trade.[4]

However, the theory was later altered when it was learned through investigation of the facts that there was not always the expected correlation between prices and exports - that for some periods high exports coincided with high prices for goods. The justifying theory of the gold standard called for the opposite.

The theory was adjusted yet again to include the fact that the level of bank credit in a country might be altered, at least temporarily, to make up for gold exports. As late as 1982, a symposium of economists could not really agree on how the gold standard system had functioned. However, they did agree that the international gold standard was not automatically adjusting, and though they are not quite certain how it worked, they realize it didn't function in the advertised manner.[5]

At its base the international gold standard attempted to attribute an objective value to gold. This made gold a kind of fetish and did not adequately take into consideration that the value of gold itself was not objective and fixed, but was variable.

Nor did it take into account the value that legal actions imparted to gold. More simply stated, the gold standard theory was based on a false concept of money's nature.

## THE GOLD STANDARD GIVES FOREIGN BANKERS LOCAL CONTROL

There is one indisputable aspect of the international gold standard that economists recognized but ignored: the control of a country's internal credit policy - whether there would be contraction or expansion - was ultimately in the hands of those who could move gold into or out of the nation. So long as a country's balance of payments were cleared through a gold standard system, forces outside the country could quietly bring on a depression and thereby a (likely) change of government within the country.

## WORLD WAR I LEADS TO THE BANK FOR INTERNATIONAL SETTLEMENTS (THE BIS)

The unprecedented level of horror endured in the first World War gave strength to movements toward international law, that for better or worse found expression in the League of Nations. WWI also led to the formation of the first truly international monetary organization, the Bank for International Settlements, known as the BIS, which was organized as a result of suggestions by the Experts Committee on German WWI Reparations as a way to facilitate reparation payments.

As the first international monetary organization, the BIS was not organized as an authority superior to central banks, nor was it to engage in the banking business. Its purpose was to establish an international gold clearing system, balancing credits and debits between member countries, thereby reducing the necessity of actual gold shipments. The BIS was also to assist countries to go back onto the gold standard after leaving it in WWI.

Organized at the Hague Conference in January 1930, the BIS is situated in Basel Switzerland and has a Swiss charter but as an international organization under international, not Swiss, law. It was founded by six central banks, and a group of three private U.S. Banks: J.P. Morgan, First National Bank of New York, and First National Bank of Chicago.

## OWNERSHIP AND CONTROL OF THE BIS

The organization is owned and controlled by government central banks except that all the American and part of the Belgian and French shares have been sold to private parties, so that about 14% of the bank is in private hands. Private shareholders have no voting power and are not allowed to attend the bank's meetings.

The Bank's authorized share capital is 1.5 billion gold francs, divided into 600,000 shares, giving each share a par value of 2500 gold francs. The actual paid-in capital is 323.2 million gold francs. The gold franc is used as a unit of account for bookkeeping purposes and underscores the original gold bias of the BIS. It was the gold value of the Swiss Franc in 1930, at 0.29 grams of gold per franc.

The Bank's assets and liabilities in U.S. dollars are converted to gold francs (for accounting purposes) at $208 per ounce, meaning that one gold franc equals $1.94.

## THE BIS UNDERTAKES BANKING SUPERVISION

While the Bank was primarily set up as a gold standard institution to facilitate German war reparations, by 1931 England was forced to abandon its ill-conceived gold standard and many other countries followed (see chapter 20). Then in 1932, the question of German WWI reparations was buried and forgotten at the League of Nations in Geneva.

Thus the original reasons for founding the bank quickly evaporated and the Bank shifted its activities into other areas. From 1961 the Bank coordinated the "Gold Pool," a last ditch effort to maintain the facade of an international gold standard. Pool members contributed gold towards keeping the U.S. dollar internationally redeemable to gold at $35 per ounce. But in 1967 France pulled out of the Pool and it collapsed in 1968.

One change the Bank made was to actually engage in the banking business, but as a bank whose depositors are confined almost exclusively to central banks. **As such, the Bank holds a significant part of the world's foreign exchange reserves; 113 billion dollars in such deposits were held in March 1997, representing 7% of all foreign exchange reserves. It is also probably the world's largest single holder of gold.**

Though the BIS states that it doesn't advance money to governments or open accounts in a government's name, most of the BIS deposits are held in short term government securities.

MONEY CREATION POWERS

The BIS has no formal money creation powers, and is not a bank of issue. However, Paul Einzig, writing in 1930, noted that conservatives were alarmed that the BIS would become an instrument of great inflation by creating excessive credits to central banks, based on fractional reserves. That is, it would credit the central banks with several times their deposits; and those credits would then be used as further reserves by the central banks to create more money, etc.[6] Only conservatives could worry about inflation during the 20$^{th}$ century's worst deflation.

Of course it didn't work out that way. But it can be mentally filed away that this potential engine for money creation in the form of the BIS still exists out there, and under proper regulation, the author would consider that a good thing in the present deflationary environment. If, that is, the bank could be placed under public authority.

The Bank promotes itself as an important meeting place for central bankers to "Facilitate international co-operation in areas of common interest in particular as regards to monetary matters and support to the international financial system," especially its stability. It devotes a significant effort to research and statistical work in the area of international loans; and more recently it has directed its attention to the volatile and potentially de-stabilizing trading in financial derivatives.

**In the 1988-1992 period, it fostered an international agreement on how to evaluate the adequacy of a bank's capital and set minimum requirements that internationally operating banks are expected to follow. These "regulations" are now having a greater effect on how banks operate than is realized - arguably more than local regulators have.**

In 1996-97, an additional nine central banks from Asia, Latin

America and the Middle East were admitted into the organization, bringing the total BIS membership to 41 central banks. The administration of the Bank includes an annual general meeting held the 2nd Monday in June. It has a Board of Directors drawn from 11 major industrial countries and there is a management and staff of nearly 500 people from 27 countries.

The BIS as an organization tended to look backward toward gold. Thus it would be the more forward looking IMF which became central to international monetary developments between 1945 and 1973.

# THE INTERNATIONAL MONETARY FUND

For the second time in the 20th century, European regimes proved unable to stop the forces that warmongers unleashed upon them, decimating their people and nations in WWII. Power over international finance flowed to the Federal Reserve System, as American industry supplied both sides during most of WWI, and the Allies during WWII. Almost sixty percent of the West's monetary gold was in New York at the end of WW2.

Confident of victory, planning for the post-war monetary system began in 1941. The central institution of this reform would not be the BIS but the International Monetary Fund (IMF), which took shape at the 1944 conference at the Hotel Mount Washington in Bretton Woods, New Hampshire. Seven hundred and thirty persons descended on the hotel for the conference.

The Englishman John Maynard Keynes, whose theories had encouraged governments to borrow money to get out of the Great Depression, wanted to go all the way and create an international central bank - a central bank of central banks - with the power to create money and international reserves based on a new monetary unit which he called the "Bancorp." But world conditions were not ready for this. In practice it would require the member states to give up a part of their sovereignty to the new central bank, and it was unrealistic to expect the U.S. to cede sovereignty - to give up power - just when it had emerged as the world's only financial superpower.

The IMF would be much more limited. Formulated mainly by the

American Henry Dexter White, it would reflect the fact of American power. It began operations in 1946 with 29 member countries, growing eventually to 181. Each country deposited a quota of gold, dollars, and their currency, which comprises the IMF reserves. The original U.S. quota was $2.8 billion.

Hans Aufricht, Counsellor to the IMF, noted that:

"...there is every indication that the amount of the U.S. quota in the fund was, in all likelihood not entirely unrelated to the book gain of the U.S. Treasury which resulted from the reduction in the weight of the gold dollar in 1934...(when Roosevelt raised the price of gold from $20.67 to $35 per ounce) which amounted to $2.81 billion."[7]

AMBIGUITY OF ORGANIZATIONAL STATUS

Again we find a degree of ambiguity into which the Anglo-American bankers love to place their operations. The IMF is nominally a special organ of the United Nations, under UN Article 57, #3, but the UN has no control whatsoever over IMF policies. Thus the IMF operates

*22a.* **Harry Dexter White (left) and John Maynard Keynes. The IMF would reflect American power - the dollar ruled. Keynes' proposal for an abstract international reserve unit, the "Bancorp," had to await the creation of SDRs in 1970. But by then it couldn't stop the IMF from degenerating into a strong-arm collection agency for the big banks.**

with whatever advantages the prestige of its UN "affiliation" status gives it, but without the responsibility implied in that.

The IMF is ruled by a Board of Governors, which meets annually, with one representative from each member country. In practice it is run by its 24-member Executive Board, with strong representation of the major industrial nations. This board meets at least three times a week. Votes are generally not taken but consensus of members is sought for IMF decisions and much weight is given to the views of the Managing Director.

Traditionally the managing director is a European or at least a non-American, while the president is normally an American. The total staff at the IMF numbers about 2200. Like UN employees, their salaries and benefits are tax free - any taxes they pay are made up by the organization. IMF staff take an oath that they "will accept no instruction in regard to performance of…duties from any government or authority external to the fund."[8]

## IMF OBJECTIVES

While the original stated objectives of the IMF included full employment and the maximum development of resources, its core activity was initially to try to institute fixed exchange rates between currencies. Each country was to establish a parity level (a "price") between its currency and gold, and stay within one percent of it. Exchange stability and stopping countries from making competitive devaluations were emphasized. Later, currencies could move in a 10% band, as long as advance notice was given of changes.

By 1949 major currency exchange adjustments occurred when the British Pound had to be devalued from $4.03 to $2.08. But the IMF had made substantial progress. In 1947 there had been a severe worldwide dollar shortage; but from 1948 to 1954 the gold and dollar holdings of the non U.S. members doubled. By 1958 twelve countries were able to establish external convertibility for their currencies. By mid 1967 the consumer price level was only 1.4 times the 1948 level, even though Europe and Japan had been rebuilt. The Marshall Plan's $12 billion of assistance to Europe was also of immense importance.

## THE U.S. DOLLAR RULES

The U.S. dollar held a special position in the system, reflecting U.S. strength. Dollars were given equal status with gold, as reserves for currency creation. This meant that U.S. gold reserves counted twice in creating world reserves. First they could be used to create dollars, then those dollars could be used as reserves to create other currencies. So at least twice as much money would be created worldwide than if gold alone were the reserve. The IMF was a mixed system of gold and a privileged paper dollar.

This was a "gold-exchange standard," similar to that which emerged from the 1922 Genoa Conference. In the 1920s the U.S. Dollar and the British Pound were maintained convertible to gold by their central banking systems, while other European currencies were convertible not to gold, but to the Dollar and the Pound. Thus the term "gold-exchange standard" was a more accurate description than gold standard.

The paper nature of the system was slightly hidden because the United States (and only the U.S.) undertook to maintain the dollar convertible into gold for other members, at $35 per ounce.

But from the founding of the IMF, U.S. gold holdings were in a downward trend, until they reached a level around $11 billion in 1971, at the $35 valuation. It can be argued therefore that this system was never really functioning as a sustainable gold based system, but began "running out of gas" right from the start.

Use of the dollar for reserves by other central banks allowed the U.S. to run large balance of payments deficits, prompting leaders like Charles De Gaulle to attack Dollar Imperialism - the use of American dollars to buy up European assets in the 1960s.

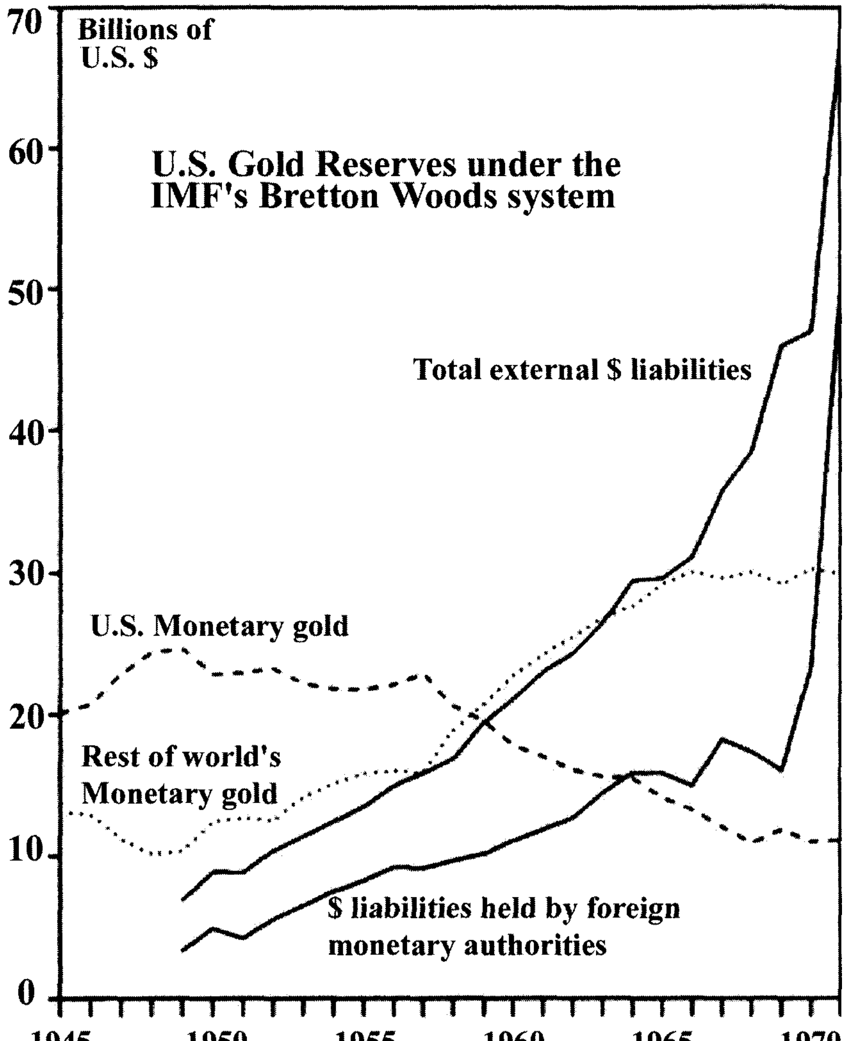
## FLOATING RATES

The parity system broke down on August 15, 1971 after the Gold Pool and U.S. gold reserves proved inadequate and President Nixon closed the "gold window," refusing to honor the commitment to exchange dollars for gold. This was the end of the Bretton Woods agreement, but the IMF continued. From March 1973 the exchange rates of various major industrial currencies floated, with smaller countries' currencies pegged to larger ones. Monetary theorists such as Robert de Fremery, and several economists such as Friedman, Haberler and Meade, had advised using floating rates for years, and they seemed to function well.

## SPECULATORS UNDERMINE THE IMF

The speculation problem began with gold and the way the "Gold Pool" allowed private speculators to take risk-free positions speculating in gold against the U.S. dollar. In 1968, Xenophon Zolotas, Greece's foremost monetary scholar, warned in *The Gold Trap and the Dollar* that:

"…the financial set up of the world - and thereby its freedom of trade and economic prosperity - has become subservient to the interests of gold speculators and hoarders. As a result more and more experts agree on the necessity for gold to be phased out."[9]




*22b.* **An examination of U.S. Gold reserves shows the system under pressure from 1949, near the beginning of Bretton Woods. Declining U.S. holdings meant the system was only running on reserves, which were draining away.**

The IMF's official historian, Margaret de Vries, implied that the system was brought to its knees by some of its own biggest beneficiaries - large corporate speculators:

*"The extreme volatility of capital flows (e.g. around $200 billion in 1976), in response to interest rate difference or anticipation of exchange rate changes, was in large part responsible for undermining the international monetary order that existed until the late 1960s."*[10]

Thus by the IMF's reckoning, large capital flows by major speculators severely harmed the system, which had been designed not for their speculative games but to facilitate liquidity, production and trade between nations. Michael Bordo has noted that:

"The architects of Bretton Woods envisaged a system characterized by limited international capital mobility."[11]

The early 1970s were a critical moment for the IMF. Which would take precedence, the ability of corporate and other speculators to shift huge amounts of capital overnight without warning, in order to take advantage of a 1/20$^{th}$ of a percent interest rate differential between currencies, or the ability of producers to create and trade goods, upon which the world's peoples depended?

The IMF and the world community would either have to resist such misuse of the world's monetary facilities and mechanisms, or be ruled by them. It surrendered without a fight, subjecting its operations to the notion that "free markets" in currency and interest rate speculation take precedence over all else. It did this without any evidence that would demonstrate a benefit to the world community arising out of the instability such a viewpoint would bring to currency holdings. Perhaps Adam Smith's market deity "Hand the Invisible" was supposed to take care of that.

In 1974, rather than negotiate a reformed system, the Governing Board decided to let the new system evolve, until a revised charter was approved in April 1978. The role of gold was reduced substantially and the SDR was chosen to become the IMF's "primary" reserve asset.

## HOW TO END PRIVATE CURRENCY MANIPULATION

This author proposes three simple changes which would greatly reduce the ability of speculators to manipulate national currencies, which endangers the livelihoods of millions of persons.

### A tax on currency transactions

For some years economists have called for placing a small tax on all speculative currency transactions and using the proceeds to better service the markets involved. This is a fine idea, but does not go far enough because it will not stop the large currency debacles, where a small tax won't be enough to stop currency manipulators.

**Prohibit speculative short-selling of currencies**

The currencies of some developing areas (for example Southeast Asia during the 1997 crisis) could have been placed into a category of no short selling allowed, or setting low position limits for short sales. Such a restriction would not affect those actually involved in production and commerce in those areas, but would present a substantial block to those attempting to take advantage of them. Appropriate exceptions could be made by exchange authorities.

**Settlement should be in "kind" instead of in "cash"**

Economists still haven't recognized the potential importance of settlement of futures and forward contracts in "kind," rather than allowing settlement in "cash." Settlement in cash means that when it comes time for short sellers to deliver the currency they sold, they have the option to value the contract in dollars, and then pay in dollars. Thus they need only the ability to deliver dollars, to protect their position.

However, requiring the contracts to be paid in "kind" would create a very different situation. If the short sales of the currency drive down the value of the currency, then when the delivery date approaches, those who sold the contracts have to actually buy back the physical currency to be able to deliver it. Such purchases push the price of the currency back up, and conceivably the short sellers could get caught in a "short squeeze" where they could not obtain the currency for delivery and would have to default, with serious losses to themselves. Defaults in the futures markets can bankrupt the largest speculators, as the billionaire Hunt brothers discovered in the 1981 silver markets, and as Baring Brothers Bank found in 1996.

These modest suggestions could help insulate currency markets from typical forms of manipulation.

## IMF'S MONEY CREATION POWERS

Originally the primary money creation mechanism of the IMF was the use of dollars as a reserve on which other currencies were created. U.S. balance of payments deficits could fuel monetary creation in countries such as Germany, which obtained the dollar reserves through foreign trade surpluses. But this was an automatic structural feature, not a discretionary power.

The IMF can also create limited liquidity by extending loans to members. The source of the funds are the reserve quotas that the members deposit with the IMF. Countries in trouble can borrow up to three times their quota, however, from 1982, the members limited the total amount that could be loaned out to 60% of the total of all IMF reserves.

## SPECIAL DRAWING RIGHTS (SDRs)

Special Drawing Rights (SDR's) were first agreed to as an international reserve asset in August 1969 after four years of negotiation, in order to reduce "the problem of international liquidity and to...(create) a new reserve unit to supplement gold, the supply of which was insufficient, or of national currencies such as the U.S. $," wrote De Vries.[12]

This was more along the lines envisioned for the IMF by John Maynard Keynes, and was a truly momentous development. Managing Director Pierre Paul Schweitzer hailed the SDRs as:

"The most significant development in international financial cooperation since Bretton Woods."[13]

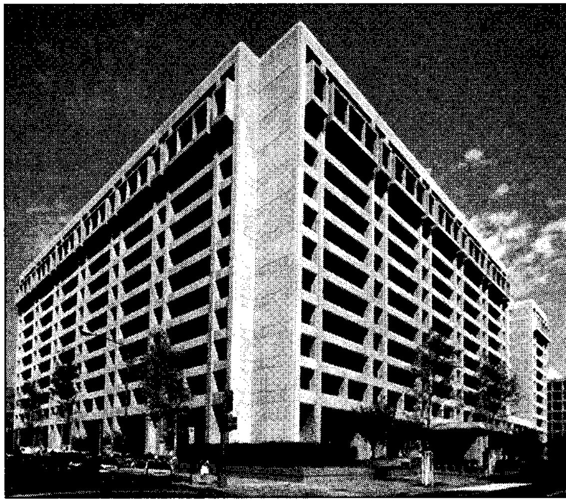
The SDRs were activated on January 1, 1970, causing the price of gold to actually drop ten cents under the official $35 per ounce. From January 1970 to the end of 1972 there were $9.5 billion of SDRs created to augment the IMF's $39 billion in gold holdings, and total international reserves of $75 billion. SDRs are valued in terms of a weighted basket of the five leading industrial currencies.

From 1975, not only the dollar, but also the D mark, yen, swiss franc, pound sterling, and French franc became usable as reserves. Eventually the Special Drawing Right (SDR) was decided on as the primary reserve asset, and from late 1978 there was a gradual reduction in the role of gold in the system. One-sixth of the IMF's gold was sold to the public. Another sixth was returned to members, who could thereafter buy and sell it like a market commodity.

The IMF has not created any new SDRs since January 1981, and as of the present, only 21.4 billion SDRs are in existence, each worth about $1.38, or 2 Swiss Francs. The IMF is presently proposing an expanded issue of SDRs, which should be a welcome and long overdue addition to international liquidity. SDRs have also had a very limited commercial usage, for example, in defining Suez Canal rates, airline fares, and some Eurobond issues.

## INTERNATIONAL BAILOUTS

After the gold parity system collapsed in 1971, IMF activities have



*22c.* **The International Monetary Fund (IMF) in Washington, DC. is not living up to its potential to facilitate international liquidity. Instead it condones de-stabilizing currency speculation and forms of international loan sharking.**

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focused on supervision, surveillance, and consultation with its members. The IMF developed into a major lending institution and in the second half of the 1970s, when lending to its troubled members became its primary activity (especially to the U.S. and Britain).

When lesser developed countries needed bailing out of loans improperly advanced to them by the world's largest private banks, the IMF has served to bail out the bankers, generally shifting their costly errors onto the average citizens of the member states.

UNFAIR "CONDITIONALITY"

In that process, the IMF has come under some of its harshest criticism, and engaged in some of its most questionable actions in the area of "conditionality" - the terms it sets for the debtor nation to receive assistance. Critics make the case that the IMF's demands fall mainly on the poor, causing brutal income reductions - far more than necessary. A frequent feature is the elimination of food program subsidies. Frequently the IMF demands reductions in wages and increases in corporate profits. In the Brazilian bailout, the IMF insisted on cutting Brazil's public expenditure by 50% from 1982 to 1983, then another 50% in 1985. Imagine the effect of cutting 75% of public expenditure in America, Germany or Switzerland in four years!

To a large extent, the (IMF) makes debtor countries bear the entire burden of balance of payments adjustment through recession. In addition, Robert Meir notes that:

"(The) Funds definition of good economic management encourages a certain kind of development: export orientation, reduced protectionism, less forced import substitution, more efficient public corporations...reduced public sector deficits..."[14]

The IMF conditions also have a very strong bias toward urban rather than rural or agricultural areas. **But Meir's most serious charge is that the IMF's adjustment programs are not designed to succeed, but only to get debt payments made as fast as possible.**

There are important lessons from the IMF to date. First, through the failure of the IMF gold parity mechanism, members found that common sense responsibility, production, and trade, not gold, was the key to an international monetary order. Second, an organization created and controlled mainly by bankers will act as an agent for bankers and neglect its larger responsibilities toward society. Third, the successful operation of the SDR to date indicates that international liquidity can be created through legal agreements, at least between those nations not threatening each other by warfare.

Fourth are the important and inevitable conclusions from the current experience with laissez faire in currency speculation, a lesson that the powers that be at the IMF apparently do not want to acknowledge. What is urgently needed is not an ideologically driven set of regulations carved in stone, but reasonable guidelines for acceptable activity.

The benefits of generally convertible currencies are immense. The author recalls that time in the 1960s, that Englishmen who went on vacation could only take a maximum £150 out of England! Imagine carrying on an import-export business where each transaction payment requires central bank approval.

Likewise there is a valid role that currency speculation can have in providing some very limited added liquidity to currency markets and in serving as an advance warning system that can alert the community to otherwise hidden problems.

*The danger arises when reasonableness, proportionality and balance are cast aside; where the basic purpose of the monetary system is subverted to a near sociopathic greed; where under cover of one ideology or another, currency institutions and mechanisms, upon which the livelihood of millions of people depends, are destroyed without a second thought. That must be stopped - it is a form of cannibalism.*

Furthermore, the past gains obtained through such piratical activities should not be considered as property, as though they were earned by the speculators. It's more appropriate to consider them as stolen, and to legally confiscate and apply them to healing their victims.

It is becoming clear that if the IMF continues in its ill conceived course as handmaiden and enforcer for corrupt banking practices worldwide, that its time is limited. Already politically unpopular, even in the United States, unless substantial changes occur, it would not take much to see this once important and useful organization slip into oblivion. **The danger then will be that the more conservative, more privately oriented Bank for International Settlements will assume the role that the IMF once played, and that would not be a wholesome monetary development.**

REFORMING THE IMF

International monetary reform is desperately needed, especially by the poorer nations. The youthful demonstrators who have managed to focus a spotlight on injustices at the IMF, World Bank, and World Trade Organization (the "WTO") meetings should be applauded. Unfortunately, after the September 11th destruction of the World Trade Towers, it is easier for the financial establishment and their media hacks to portray those highly moral, youthful demonstrators as merely hooligans and terrorists, and to take harsh actions against them. That is very convenient for those who control Western capitalism.

It may still be possible to reform the IMF, if the corruption is limited to its top echelons. But they have been involved in so much evil doing these past two and a half decades, that it may call more for punishment than reform. Especially if the diseased attitudes have been spread throughout the organization, it would be preferable to dissolve the IMF and start over with a new institution. The answer is not yet clear.

The focus of the American Monetary Institute has been more on national monetary reform. Because of the dominant position of the United States and the dollar in the international monetary arena, real reform of the U.S. money system would automatically solve many of the most pressing international monetary problems.

Regarding the difficulties of the un-payable debt burdens of the lesser developed countries, Pope John Paul 2nd is the best economist: debt forgiveness, plain and simple, makes sense in most of those cases.

# THE WORLD BANK GROUP

The Bretton Woods Agreement in 1944 also created the International Bank For Reconstruction and Development (the IBRD) also under UN Article 57 (section #4). Its purpose was to help in the reconstruction of Europe and Japan after WWII. From 1945 it became known as the World Bank.

When the job of reconstruction was completed by the early 1960s, the IBRD shifted to financing projects in under-developed countries, with the stated purpose of reducing poverty around the world. Critics of the Bank find serious shortfalls in its operations. Cheryl Payer, a long-time critic of the Bank, charges that it actually increases local poverty by demanding and getting special privileges for its often elitist projects.[15]

## OWNERSHIP AND CONTROL OF THE WORLD BANK

The World Bank (IBRD) is owned by its member governments. They have committed an amount of capital to the Bank's operations, but only a small part has been paid in, with the rest remaining on call, to guarantee the Bank's bonds. This gives the bonds a very high credit rating. The bonds are sold worldwide and are the World Bank's main source of loanable funds.

The World Bank is ruled by a Board of Governors, where each of the 180 member countries sends one governor, usually the minister of finance, to the September annual meeting. On a daily basis the Bank is run in Washington, D.C. by its 20 resident executive directors and its president, who normally meet several times a week. Five of these 26 directors are selected by the five member nations with the largest number of shares, and the other 15 are selected by the rest of the members.

Traditionally the president of the World Bank is a U.S. citizen, though the U.S. share ownership of the Bank is shrinking: 35% in 1947, 21% in 1981, and 17% in 1997.

## WORLD BANK PROJECTS DO MAKE MONEY

World Bank projects have a very high average rate of return: 18% as of 1987;[16] and 16% in 1997. IBRD loans are typically paid back over a 10-to-15 year period. The same rate of interest is charged to all borrowers: ½ % above the cost of borrowing to the Bank.

One of the criteria for measuring the success of a project is that it have at least a 10% rate of return. World Bank projects do not fail. Since it began, the World Bank has lent about $400 billion. All of the IBRD's clients are governments, but it works closely with private enterprise.

The Bank's website stresses how it helps to reduce poverty:

"In the past few decades, East Asia has achieved some of the most remarkable poverty declines in history; 27% from 1975 to 1985 and 35% from 1985 to 1995. Along with substantial improvements in the education and health of the poor." However, what will the 1997-98 Asian financial debacle (brought on by large scale currency speculation) do to these statistics?

The World Bank's public relations materials are a bit disingenuous. For example their website states:

"Our Articles of Agreement explicitly prohibit the Bank from interfering in the country's political affairs and require it to take only economic considerations into account in its decisions."[17] But the Bank's "economic considerations," its definitions of good and bad, like those of the IMF, are heavily loaded with political implications which work to maintain or increase the disparity of wealth and income between rich and poor.

THE INTERNATIONAL FINANCE CORPORATION (IFC)

This affiliate of the World Bank Group was founded in 1956 and is the only one that invests in private sector projects in developing countries, and without a government guarantee. The IFC also arranges private financing for these projects. Since its founding, it has committed about $21.2 billion of its own money, and arranged another $15 billion in underwriting syndications for 1,852 private companies in 129 developing countries.

In 1997 the IFC invested more than $8 billion. It also "helps" governments to privatize state owned enterprises, and raises private finance for ventures.

The IFC management, shareholders and Articles of Agreement are independent from the rest of the World Bank Group. Its share capital is provided by its 173 member countries, and it raises most of its funds by issuing bonds.

THE INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA)

This most recent addition to the World Bank Group came into existence in 1960. Today it is proudly put forward as the "good deeds" work of the bank, because it makes 35 to 40-year interest-free loans to really poor countries (those with less than about $1,000 per capita annual income). At present 80 countries are eligible for IDA loans. The population of these countries is about 3.3 billion people, or 69% of the developing world's population!

The IDA charges an annual administrative fee of 0.75%. Critics say that the IDA was only formed when there was a threat that the United Nations was going to set up its own lending agency (the Special UN Fund - SUNFUND for economic development). Eugene Black, President of the IBRD at the time, admitted that the IDA "was really an idea to offset the urge for SUNFUND."[18]

IDA and the IBRD share the same staff and offices and report to the same President. All IDA funds come from taxpayers of the IDA's member governments, through cash contributions from its member governments, which are refreshed every three years. Since 1960 the IDA has loaned about $108 billion to 106 countries. It generally lends $5 to 6 billion per year. According to the Bank's Website, IDA projects are targeted in the following categories:

Human resource development (education, health, population, nutrition, water supply and sanitation) ....... 33%
Agriculture and rural development .................... 23%
Infrastructure ................................ 23%

THE "STRATEGIC COMPACT"

The World Bank Group is currently engaged in a 30-month "makeover" to re-examine and re-vamp all aspects of its activities. Its description looks like a corporate efficiency drive, which goes so far as to discuss how it will get rid of non-performing personnel at the Bank itself! They do mention probably the most important area to reform, to "design more appropriate conditionality." However, their focus on firing their own employees undercuts the grandiose announcements, and indicates a retrogression may be coming, rather than a progression.

# ISLAMIC MONETARY DEVELOPMENTS

## Echoes of Scholasticism

"Social justice is the hallmark of the Islamic economic System."
International Center For Research
in Islamic Economics[19]

Just as concepts of exclusivity and elitism in capitalism are ultimately based on and excused by the Old Testament's legacy of a "chosen people," Moslem economic thought has also been framed by its holy book - the Koran. While the Old Testament had strong prohibitions against usury, it was slightly ambiguous regarding the practice of usury against non-Jews. This "loophole" allowed some elements to drive a truck through the otherwise strong condemnations, and to create a reputation for the Jews as history's greatest userers.

But the Koran is very clear that all usury is forbidden:

"Those who devour usury...will not stand except
as stands one whom...The Evil one by his touch
Hath driven to madness...That is because they say:
'Trade is like usury',...but God hath permitted trade
and forbidden usury."
Koran; Sura II, 275

In addition, the Koran contains a kind of "inoculation" for its readers, against some of the hypocrisy so evident in Western Capitalism. That is in a section that explicitly warns the Jews to beware of a particular segment of their fellow Jews and Christians:

"O Ye People of the Book…It is a wish
of a section of the People of the Book to lead you astray…
Ye People of the Book!
Why do you clothe the truth with falsehood
and conceal the truth while ye have knowledge?"
The Koran; Sura III. 65-71

Furthermore, perhaps because the Prophet Muhammad had been a merchant in his youth, Moslem writings on business ethics have been taken more seriously by the faithful. Of particular interest are the developments occurring in Moslem monetary thought. **For it turns out that Mohammed understood the nature of money as a legal creation, and taught his followers that nominally valued copper coinage was to be as acceptable as gold and silver:**

"According to Muhammad, the property of currency attaches to circulating fulus (copper coins), and they are to be considered as an absolute currency…They are in his view suitable for partnership investment like all other absolute currencies, viz., dirhams (silver) and dinars (gold)." Kasani, 6:59-60.[20]

Imagine the effect on Christian money systems had Jesus Christ made a similar observation.

"SHARIA" AND "FIQH"

"Sharia" refers to Islamic sacred law. Out of this was developed the "Fiqh" - Islamic jurisprudence or a religious doctrine of duties and manners. But in business, the Fiqh has been viewed as an ideal of how things ought to be, and is not often followed. The Koran forbade the taking or paying of interest, and when the interdiction was first imposed in the 7th century, business flourished:

"With the abolition of interest, economic activity in the Moslem world did not suffer any decline. In fact there was increased prosperity," wrote M.U. Chopra, financial advisor to Saudi Arabia's Monetary Authority.[21]

This is interesting, but it was also a period of great expansion for Islam. As early as the 11th century a person conducting "commerce in accordance with the law was looked upon as ridiculous by all other merchants," according to Hurgronge.[22] Thus there has been a large gulf between Islamic practice and theory. Moslem countries over the last two centuries gradually adopted an interest-based money and banking system, under the influence of colonialism. But that is now beginning to change.

Chopra distinguishes three phases in the recent Moslem economic revival. First, a re-evaluation of the Moslem position was begun in the 1930s (after viewing the West's Great Depression?) and was conducted by non-economist Moslem scholars who re-affirmed the classical Moslem positions. Then from about 1965, Moslem economists have worked on analyzing these ideas. The third phase is the effort underway to actually develop interest-free banking and financial institutions. Chopra says the fourth phase will be in the area of monetary theory and implementation.

Pakistan especially has given impetus to these developments through its 1973 Constitution in which article 227 provides that all existing laws shall be "brought into conformity with the injunctions of the Holy Quran and Sunnah" and that Riba (usury) be eliminated as soon as possible. Chopra comments that this is "the first time that a serious commitment of this nature has been expressed by the government to mold the economy in the framework of Islamic values."[23]

RIBA AND ZULM

The two terms Riba and Zulm are close in meaning to the way the Christian Scholastics used the term "usury." Riba covers more than interest, but applies to all forms of unfair financial exploitation. Islam seeks to eliminate "the injustice perpetrated in the form of the financier being assured of a positive return without doing any work or sharing in the risk, while the entrepreneur, in spite of his management and hard work is not assured of such a positive return."[24]

"Zulm" is an even more comprehensive Islamic term referring to all forms of iniquity, injustice, exploitation, oppression and wrongdoing. Islamic economic thought actively seeks to remove Riba and other forms of exploitation and does not separate justice and morality from economics. Islam has an "Unflinching dedication to the brotherhood of mankind," Chopra tells us in his book *Toward a Just Monetary System*.[25]

NISAB AND ZAKAA

An interesting Moslem concept is of a three-sector economy: the Public Sector; the Private Sector and the Voluntary Sector. Faridi describes how those with "Nisab," the ability to easily be generous, are acting honorably when they give "Zakaa," at 2 ½ % of income, which goes from the rich to the poor and is something more than alms.[26]

INTEREST-FREE FINANCE IN THE ISLAMIC WORLD

By the early 1980s interest-free banks were functioning in Egypt, Jordan, the United Arab Emirates, Kuwait, Sudan and Bahrain. Chopra counted 38 banks operating interest free in Africa and Asia, and even in the Bahamas, and Geneva, Switzerland. In Pakistan, 6,500 bank branches had opened interest-free sections where separate counters accepted deposits for interest-free *investment* accounts. According to one report these accounts were earning 8 to 15% per year from dividends and capital gains. They're like mutual funds.

Pakistan also started a "National Investment Trust" to accept small household savings for investment, through bearer and registered shares. It will be interesting to see how these various interest-free mechanisms work and develop over time.

Pakistan and most other Moslem countries do belong to the IMF, and the World Bank Group. But her current development and testing of nuclear weapons is highly unfortunate and far riskier than the political leaders can imagine. They may be providing "interested" (pun intended) parties with the cover excuse to annihilate their evolving interest-free system, by warfare. The existence and demonstration to the world that such a system can function well, would be far more powerful than a nuclear weapons arsenal.

FUTURES "DEALING" IS ALLOWED

The Koran explicitly refers to futures dealing:

"When ye deal with each other...in transactions involving
future obligations...in a fixed period of time,
reduce them to writing."

Koran; Sura II, sect. 39, # 282

But this does not apply as a blanket approval to all types of futures trading.

ISLAMIC ECONOMISTS PROMOTING MONETARY JUSTICE

*Thus when moral concepts are applied to money, whether from a Christian, Moslem or secular viewpoint, they appear to move toward similar conclusions.* Dr. Mabid Ali Al-Jahri proposes a 100% reserve requirement on all commercial banks, and Dr. Anas Zarqa strongly agrees, because in part:

"Money creation is a social prerogative, and hence the benefits of money creation should accrue to the whole society."[27]

Chopra advises that good monetary reform should bring about a larger number of smaller enterprises, and discourage large scale businesses except where they are unavoidable.

The Moslems also appear to have a healthier attitude toward markets:

"While Islam recognizes individual freedom, it does not give any sanctity to market forces. The Blind operation of market forces need not automatically reward socially productive effort, curb exploitation or help the weak and the needy," writes Chopra.[28]

Some of the Moslem economists appear to be more scripturally oriented than the Christian Scholastics were. But hopefully, enough rationality will be applied, as well as attention to desired outcomes and actual results. Unfortunately, prescriptions regarded as having a sacred origin can too easily go wrong and even run amuk.

It will be interesting to follow monetary and banking developments in the Moslem world and to see whether opportunities arise for co-operative reform activities.

## PAKISTAN'S PRECARIOUS POSITION

After the World Trade Center attack of September 11, 2001, the U.S. pressured Pakistan to help take action against Afghanistan's Taliban ruling religious clique. It would be extremely serious if Pakistan's government, also under presure from India, were to be de-stabilized and replaced by a fundamentalist regime. After September 11th, the thirty nuclear weapons, "advertised" as in Pakistan's arsenal, wouldn't be allowed to remain in fundamentalist Moslem hands. A war between America and Islam, being promoted by the worst elements from around the world, would be underway for the foreseeable future.

## IT IS U.S. MONETARY REFORM THAT IS NEEDED

In summary, after WWII the U.S. emerged as the monetary superpower. This meant the dollar ruled in the International Monetary Fund. Though ostensibly based on a gold exchange system, right from the start the gold just drained away.

Ambiguously organized under the United Nations, but with no public responsibilities, over time the IMF degenerated into a strong arm collection agency for the major banks, applying biased economic theory to maintain the power of the super-wealthy. This corruption may have placed it beyond reform. (For example the IMF forced Pakistan to reduce educational funding, leaving the field open to the religious Mishrams promoting fanatical hatred of America.)

The positive developments among Moslem economists are noted and encouraged. The author suggests that international reform will follow quickly from U.S. reform. Therefore reforming our own money system should be the primary focus of Americans desiring a fair international system.

## *Notes to Chapter 22*

[1] See Stephen Zarlenga, *Henry George's Concept Of Money*, Robert Schalkenbach Foundation, 2001.

[2] Hjalmar Schacht, *The Magic of Money*, (London: Oldbourne, 1967), p. 75.

[3] Robert de Fremery, *Rights vs. Privileges*, (Provocative Press, 1993), p. 116

[4] W. Edwards Beach, *British International Gold Movements and Banking Policy, 1881-1913,* (Harvard Univ. Press, 1935), pp. 8-9.

[5] See Michael Borda & Anna Schwartz, *A Retrospective on the Gold Standard,* (Univ. of Chicago Press, Natl. Bureau of Econ. Research, 1983).

[6] Paul Einzig, *The Bank for International Settlements*, (London: Macmillan, 1930.

[7] Hans Aufricht, *The International Monetary Fund*, (New York: Praeger, 1964).

[8] IMF rule N-10.

[9] Xenophon Zolotas, *The Gold Trap and the Dollar*, (Athens: Papasissus, 1968), p. 21.

[10] Margaret G. De Vries, *The IMF in a Changing World, 1945-1985*, (Washington: IMF, 1986), p. 98.

[11] Michael Bordo & Barry Eichengreen, *A Retrospective on the Bretton Woods System*, (Univ. of Chicago Press, 1993), p. 623.

[12] De Vries, cited above, p. 76.

[13] De Vries, cited above, p. 88.

[14] Robert J. Myers, *Political Morality of the IMF*, (New York: Transaction Books, Carnegie Council on Ethics & Internatl. Affairs, 1987), pp. 25, 44-5.

[15] Cheryl Payer, *The World Bank -a Critical Analysis*, (Monthly Review Press, 1982).

[16] Barend A. de Vries, *Remaking the World Bank*, (Washington: Seven Locks, 1987), Ch. 1.

[17] World Bank Website at: http://www.worldbank.org

[18] Payer, cited above, quoting IDA historians Mason and Asher, p. 33.

[19] *Money and Banking in Islam,* ten papers delivered at the January 1981 conference of the Institute of Policy Studies, Islamabad, Pakistan. Published by the International Center for Research in Islamic Economics, King Abdul Aziz Univ., Jeddah, Saudi Arabia. From p. 3 of the Introduction.

[20] Abraham L. Udovitch, *Partnership and Profit in Medieval Islam*, (Princeton Univ. Press, 1970), p. 53

[21] M. Umer Chopra, *Toward a Just Monetary System*, (London: The Islamic Foundation, 1985), p. 76.

[22] Udovitch, cited above, quoting Hurgronge, *Selected Works.*

[23] *Money and Banking in Islam*, cited above, p. 212.

[24] Chopra, cited above, p. 64.

[25] Chopra, cited above, p. 27.

[26] *Money and Banking in Islam*, cited above, papers by Faridi and Chopra.

[27] *Money and Banking in Islam*, cited above, paper by Al-Jarhi.

[28] Chopra, cited above, p. 47.

# CHAPTER 23

# THE EUROPEAN MONETARY UNION [A]

"Many (governments) make a mistake, not only in giving too much power to the rich, but in attempting to overreach the people. There comes a time when out of a false good there arises a true evil, since the encroachments of the rich are more destructive to the state than those of the people."
Aristotle (Politics)

"Europe will be built through a currency or it will not be built at all."
Jacques Rueff

It's well to keep Aristotle's and Rueff's words in mind as Europeans embark on the greatest monetary reform since Bretton Woods and the International Monetary Fund. This development is going to affect the lives and economies of all people, everywhere, far into the future.

This is a rare moment in time to "get it right" as much as possible, while attention is focused on creating the new system. After that moment

[A] Much of this Chapter first appeared as Special Report #2 of the American Monetary Institute in May 1997, commissioned by the Conzett Investment Management group of Zurich, Switzerland. A part of its intent was to influence in some small ways how the EMU would structure its definition of money and other matters; therefore several explicit suggestions are made. The number references are to the sections of the treaty as given at the European Community's Web site at: http://www2.echo.lu/legal/en/treaties/ec/ecbstat.html#HD_NM_14 passes it becomes more difficult. However, even the process of making necessary revisions later can be aided with some extra forethought and planning now. We can now apply the main principles of money we've observed in numerous historical cases to the formation of the European Monetary Union.

The primary institutions of the European Community (hereafter referred to as the "Community") are seen as the European Parliament, the Court of Justice, the Council and the Commission. These include the legislative, judicial, and executive powers and are set forth in Article 4, Section 1 of the Maastricht treaty. The monetary power is primarily to be embodied in the European Central Bank (the ECB), described in the Protocols of the treaty. Because it is set forth separately from the other institutions, in Article 4, Section A, and is being formed years after the others, there's the impression that it is subsidiary to them. It is not.

The overriding importance of the monetary power in determining the fate of nations and empires is evident from our historical examples. Thus the ECB deserves the same organizational status as the European Parliament, Council, and Court of Justice. Viewing it that way would help to draw the attention of the whole Community to properly formulating and monitoring it.

## EUROPEAN MONETARY UNION STRUCTURES

These descriptions will sound a bit legalistic, since for accuracy we paraphrase the various points of the treaty. The key central institution of the European Monetary Union (the EMU), is the European Central Bank (ECB). It, along with the central banks of the member states, comprise the European System of Central Banks (ESCB). The ESCB is governed by the decision making bodies of the ECB, which are its Governing Council, its General Council, and its Executive Board.

The ECB Governing Council is composed of the heads of the national central banks and the members of the ECB Executive Board. Each national central bank governor has one vote, except on certain specified categories, where the votes are weighed according to the article 29 formula (where half the voting weight is determined by the members relative gross domestic product, and the other half by its relative population). The votes of the Executive Board members get no extra weighting. The Governing Council acts by majority vote, except on some matters, where a "qualified majority" is required. Then action requires affirmative votes representing at least 2/3 the subscribed capital of the ECB, and one half of the shareholders.

The executive board is to be drawn from recognized professionals in the monetary/banking area, and appointed by agreement at the head of state level, after being recommended by the European Council, in consultation with the European Parliament and the ECB Governing Council. The executive board has a president serving for eight years, a vice president serving for four years, and at least four other members serving for five-to eight-year terms. President and vice president are appointed in the same manner as Board members.

The Executive Board implements the decisions of the Governing Council, and is responsible for the current business of the ECB.

The General Council of the ECB is composed of the president and vice-president of the ECB and the Governors of the national central banks. The others members of the Executive Board may participate in meetings, without having the right to vote.

The European Monetary Institute (EMI) is a temporary body formed to lay the groundwork for, and prepare the transition, to Monetary Union. It's structured nearly as a twin of the ECB, and goes into liquidation upon the ECB's establishment.

COMMENT

The institutional structure of the ESCB has sufficient centralized power to wield effective control over the European money system. Real sovereignty and power are being ceded by the national central banks, and their respective nations, to the ECB. There are no visible structural leaks whereby money can be created or liquidated by unilateral national decision. The structure appears efficient, except that perhaps the ESCB's General Council may end up as too redundant to its Governing Council.

This centralization of monetary power can be good or very bad, depending on how wisely it is implemented. There are clear benefits of having a single currency for the whole community: it will simplify trade, pricing, and payments. It can also protect the community from capricious foreign currency meddling.

The danger is not well recognized: that the potential for catastrophic error is greater from one single power center than from twelve somewhat independent ones, closer to their constituencies. Consider Byzantium's golden grip on Europe's throat for 900 years.

One can say that we know better today, and we do. However, Byzantium's rigidity stemmed partly from a form of religious ideology, which is still a big part of human nature. Today we see its manifestation not so much in churches or temples, but in the rigid ideological bias of most members of the economics profession. Their prejudices are based on unproven theories rather than demonstrated realities.

The stated intention to restrict management of the ECB to recognized professionals in the monetary or banking area is not a good idea. It will probably result in management with a monolithic viewpoint, which tends to follow the dictates of monetary theories, rather than to carefully observe the results of their monetary actions upon the economy and people.

Restricting the management of the institution to people who have been indoctrinated into essentially the same economic theories is dangerous because, as we've observed in Chapters 12 and 13, those theories themselves have been structured over time to serve particular interests.

The highest degree of technical expertise must be obtained for those positions requiring it. But technocracy is not equivalent to the leadership, vision and judgment that running a monetary system requires. Extra effort needs to be made to achieve diversity of viewpoint among the management.

THE OWNERS

The ECB will be owned entirely by the national central banks, with their individual share subscriptions to its 5,000 million EURO capital set according to the Article 29 weighting formula. The shares can't be sold or transferred. (28.2.)

The national central banks will provide the ECB with foreign reserve assets, other than Member States' currencies, ECU's, IMF reserve positions and SDRs, up to the equivalent of EURO 50,000 million. The Governing Council decides on the proportion to be called up on the establishment of the ECB, and the amounts called up later. (30.1.)

The "monetary income" accruing to each of the national central banks in the performance of the ESCB's monetary policy function will be determined by their individual income generating activities. It will be allocated at the end of each financial year according to an accounting, after a portion up to 20% goes into a reserve fund. (32.1.)

COMMENT

By avoiding private ownership of the European Central Bank, the Community has wisely avoided creating an institution that is liable to take important monetary actions in the interest of its owners, rather than for the proper functioning of the money system.

There is still the potential for those who manage the central bank to take actions that favor their former/future employers, their perceived class affiliation, or even their friends and associates. This is another reason for requiring diverse backgrounds among management.

REPORTS AND SCRUTINY

The ECB will publish a consolidated financial statement each week, an ESCB activity report at least quarterly, and an annual report on ESCB activities, including the monetary policy of both the previous and the current year.

The ECB and the national central banks will be audited by independent external auditors recommended by the Governing Council and approved by the General Council. The auditors have full power to examine all books and accounts of the ECB and the national central banks and obtain full information about their transactions. (27.1.)

However, monetary decisions will not be made openly. The Proceedings of all meetings are to be confidential for all time. Members of the governing bodies and the staff of the ECB and the national central banks will be required to maintain "professional secrecy," even after they leave the organizations.

COMMENT

Timely publication of reports and independent auditing may seem obvious, but this is in fact a key feature. Europeans would probably be surprised to learn that the U.S. Federal Reserve System has never been independently audited. Its Bank of England model had also gone for years without issuing reports, even to shareholders.

The secrecy to the grave requirement, on meetings and other matters, raises some concern. Certainly the ECB should not make it easy for speculators and others to thwart or unfairly benefit from its policies. But that can be done without giving the institution too much of an air of secrecy, which could lead to worse problems.

CONVERGENCES

In the steps toward monetary union, member states had to bring certain key monetary measurements into convergence:

***Fiscal Deficits*** had to be no more than 3% of the planned or actual gross domestic product at market prices; and government debt no more than 60% of gross domestic product, both at market prices. (104c(2))

***Price Stability*** had to be sustainable at an average annual rate that doesn't exceed by more than 1 1/2 percent, the three best performing member states in terms of price stability. Inflation is measured by adjusted consumer price indexes. (109j(1))

***Exchange Rate Stability*** of currencies had to stay within normal fluctuation margins specified by the Exchange Rate Mechanism, without severe tensions or unilateral devaluations for at least two years.(109j(1)

***Interest Rates*** on Member's average long-term government bonds (adjusted) had to be within 2% of the three best performing Member States in terms of price stability. (109j(1))

COMMENT

The convergence requirements, especially on deficits, proved to be a real test of the ability of member states to conform to some tight requirements, which even the economically strongest had great difficulty meeting. This indicates the conditions were too arbitrary and demanding. Perhaps there is nothing sacred in keeping deficits under 3% of Gross Domestic Product, and at times fluctuations to higher levels must occur. The real meaning of the convergence tests may have been to see whether the Community could demonstrate the kind of flexibility needed for the ESCB to be workable over time. But such flexibility was not demonstrated.

The willingness of Germany to go to 12% unemployment in its effort to meet the pre-ordained requirements and set a kind of example for the community represents a danger signal that ideology may be allowed to dominate the system, rather than requiring that the money system work effectively to improve life in the community.

MONEY CREATION PROCESS

Usually the key feature of a monetary system is how new money is created and added to the system, or removed from circulation. This is of paramount importance because it is the main way the money system is controlled. It determines whether sufficient money is circulating and industry is thriving, or whether money is too scarce and the economy and people are suffering, while bondholders are enriched.

It is normally through the creation of new money that a self styled elite makes its grab for power; thanks to the obfuscations of economists, the process is not generally understood by the public, or even by many economists.

It is also important because in the process of defining how the money supply is created, it is normally necessary, and always desirable, to clearly state the exact definition of money in the system.

The ECB takes effective control of the several methods of creating and liquidating money:

**Policy determination**

The ECB Governing Council formulates the monetary policy of the Community including intermediate monetary objectives, key interest rates and the supply of reserves in the ESCB, and establishes the guidelines for their implementation. The Executive Board implements the monetary policy guidelines and decisions of the Governing Council, and gives the necessary instructions to the national central banks. The ECB will have the power to instruct the national central banks to carry out operations that form part of the tasks of the ESCB. (Art. 12)

The national central banks as an integral part of the ESCB must follow the guidelines and instructions of the ECB. The Governing Council will take the necessary steps to ensure compliance and require that any necessary information be given to it. (14.3.)

To conduct their operations, the ECB and the national central banks may open accounts for credit institutions, public entities and other market participants and accept assets, including book-entry securities, as collateral.

**Bank notes**

The most visible method of creating money is the printing of government notes or of banknotes, and the minting of coins.

The ECB's Governing Council has the exclusive right to authorize the issue of bank notes within the Community. Both the ECB and the national central banks may issue such notes. The bank notes issued by the ECB and the national central banks will be the only such notes to have the status of legal tender in the Community. (105a(1)) Coinage will be minted in limited amounts by the national central banks.

**Monetizing debt**

A more important method of money creation is the monetization of government debt. Article 104 forbids the monetization of national debts by the ESCB or the ECB, by forbidding overdrafts or the direct purchase of bonds from member governments and their institutions. Furthermore, the European Community will not be responsible for the commitments of the member states.

(Article 104) Overdrafts or any other type of credit facility with the ECB or with the national central banks in favor of Community institutions or bodies, central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of Member States shall be prohibited, as shall the purchase directly from them by the ECB or national central banks of debt instruments. (21.1.)

**Open market and credit operations**

Central banks have also "monetized debt" by purchasing government and other debt instruments in the open market. This injects new money into circulation. If they sell their bond holdings, they remove that money from circulation. The ECB and the national central banks may operate in the financial markets by buying and selling outright (spot or forward) or under repurchase agreement and by lending or borrowing claims and marketable instruments, whether in Community or in non-Community currencies, as well as precious metals; conduct credit operations with credit institutions and other market participants, with lending being based on adequate collateral.(18.1.)

The ECB establishes general principles for open market and credit operations carried out by itself or the national central banks, including the announcement of conditions under which they stand ready to enter into such transactions. (18.2.)

**Loan creation through fractional reserve banking**

Since the fall of Byzantium, commercial banks have created money by making loans - by entering credits on their books. The European Central Bank can increase or decrease this potential for money creation by raising and lowering the minimum reserve requirements that banks must have to extend loans.

**Minimum reserves**

The ECB may require credit institutions established in Member States to hold minimum reserves on accounts with the ECB and national central banks in pursuance of monetary policy objectives. Regulations concerning the calculation and determination of the required minimum reserves may be established by the Governing Council. In cases of non-compliance the ECB can levy penalty interest and impose comparable sanctions. (19.1.)

The Governing Council will define the basis for minimum reserves and the maximum reserves and the maximum permissible ratios between those reserves and their basis, as well as the appropriate sanctions in cases of non-compliance. (19.2.)

**The emergency clause**

Presumably for emergencies, or to meet other evolving conditions the Governing Council may, by a two thirds majority of the votes cast, use other operational methods of monetary control as it sees fit, respecting Article 2. The Council shall, in accordance with the procedure laid down in Article 42, define the scope of such methods if they impose obligations on third parties.

COMMENT

There are two important things missing regarding the money creation power that should be corrected. First, the ECB is about the creation, control, and liquidation of money. But there is no clear definition of money. Do they think it is unnecessary? The lack of a good money definition in the U.S. Constitution eventually allowed the monetary power to overwhelm the whole structure.

Fixing the exchange rate of the Euro in terms of the national currencies will define its value at that starting point, but does not define the nature of the Euro. One can infer a jumbled definition of this money, as "backed" by, (but not redeemable for) various existing assets, commodities, government and other securities. In this system, money is what the ECB says is money, and rightfully so, but it should clearly declare what money is! For example, see pages 656-57.

To avoid confusion and error, not only of participants, but of the ECB itself, it should make explicitly clear its definition of money now. In doing so, even if it moved forward with a less than perfect definition, that error will become easier to correct as the definition is examined and brought into convergence with the real nature of money.

The second crucial item missing is a discussion of exactly how the ECB will create the new money needed as Europe's population, industry and commerce grow. Which guidelines will be used? Will money growth be geared to population growth? Adjusted upwards for growth in production and services? Be dependent on foreign trade balances? Left largely to the discretion of private bankers as in the U.S.? The Community needs to know and seriously discuss these things now, if confidence in the overall fairness of the system is to be fostered. The ECB will also need such guidelines to execute its own duties.

THE FRACTIONAL RESERVE PROBLEM IN THE EMU

Another important matter is the ECB's intent to allow banks to engage in fractional reserve lending. We have noted the problems with fractional reserves in Chapters 19, 20, and 25. It shifts the power to create money from the government (in effect the people) to the bankers.

While European bankers may be a different breed from American bankers and have not acted as recklessly in the past, this does not change the fact that a great privilege is bestowed upon bankers in the power to create money. This privilege leads to a continuing concentration of wealth and power into the hands of bankers, without their earning it. It's wrong.

Furthermore, as discussed in Chapters 19 and 20 it is the source of panics and crashes in money and banking markets.

One hundred percent reserves could be implemented as in the plan discussed in Chapter 24, except that presumably this would be political death to the EMU, with the bankers preferring fractional reserve banking under their old national systems, instead of 100% reserves in the European Community. If fractional reserves are a political necessity at present for the EMU to move forward, removing this problem should be on the reform agenda.

It would negate much of the ultimate purpose of the ECB to rely on fractional reserve banking as its main method of creating money. The ECB needs the ability to do that independently and directly. It needs the ability to create reserves or simply money out of thin air, when it determines that is the best way to monetarily serve the Community. Without that power it would be a eunuch among world central banks, and the European Community would be accepting the disadvantages of centralized control, without the main advantage.

Yet there is not sufficient reference to the ECB's power to create reserves - or its intended use in the ECB protocols: "The Governing Council shall formulate the monetary policy of the Community including…the supply of reserves in the ESCB and shall establish necessary monetary guidelines for the implementation." (Ch. 3, Organization of the ESCB, art. 12.1)

This is simply not an adequate discussion of how reserves will be created by fiat. It's as though the organizers don't want to clearly state the power (which is there) for fear that it might bring on demands for more monetary expansion by sections of the Community. They are like temple priests bowing low to the ground in the presence of the holy of holies, afraid or forbidden to even to look directly at "the power."

NEW MONEY TO BE BASED ON FOREIGN TRADE SURPLUSES?

Because the Bundesbank previously relied heavily on trade surpluses to obtain U.S. dollar monetary reserves, perhaps there is a hope of continuing to do this with the ECB. But this method of obtaining reserves is problematic, and misses the point on the nature of money.

Consider that German labor, which used to be less expensive than American labor, must now compete against Asian labor, which is so cheap that it approaches slave labor.

In a situation where American banks finance state of the art factories in Asia, European labor can compete with that only if they too enter into a form of slavery. There is no modern tradition for that in Europe and it may be fought with blood, and rightfully so. Ultimately, free trade can be a good idea if its benefits are truly shared by the peoples of the respective nations, rather than their ruling elites.

The European System of Central Banks will have to directly face the question of creating new money within the system. In any case selling more than you buy creates friction with your trading partners. It is a mentality that treats the money system like a game of marbles, where the "winner" takes the marbles home to his hoard. The only period it worked well was when it was desirable to spread reserves that were overly concentrated in the U.S. to the rest of the world. It is time for the central bankers to face their real responsibilities toward their own and other nations. They need to stop acting as facilitators for international currency speculation, which does not produce anything, and can only destroy. "Free trade" **should never** include unlimited speculative trading of national currencies.

If the intent of some is to twist up Europe into a Puritanical knot of scarce money and "pious" monetary morbidity, that will become apparent fairly soon. At such a point, Europeans should remember that the ESCB contains the monetary power to help make the economy flourish, not merely to grow. It can be used when there is the will to do it.

IT WAS IN THE HANDS OF THE EMI

Until recently, the task of defining money, and of creating the guidelines on how and how much new money will be created, was in the hands of the European Monetary Institute (EMI). According to the EMI Protocol (art. 4.2): "the EMI shall specify the regulatory, organizational, and logistical framework necessary for the ESCB to perform its tasks… in particular…to prepare the instruments and procedures necessary for carrying out a single monetary policy."

Back in 1997 we invited the EMI to specify these guidelines in greater detail, so that the community could discuss them and be assured of their adequacy. These are not minor matters.

Why proceed with an unjust and unstable fractional reserve system?

The EMU must go forward because there is really no choice, considering what Europe faces in the monetary hegemony of the Federal Reserve System, and those who control the world's dollar based financial order, using it as a club to bludgeon weaker states.

We saw in Chapter 2, in the Caesar's establishment of a gold standard in Rome, the danger of placing the control of the money system outside the community. The recent monetary debacle of Southeast Asian countries in 1997-98 demonstrated the danger of basing one's economy on a money system and monetary unit that someone else controls.

Previously, international firms could employ Indonesians for 15 or 20 U.S. dollars a week equivalent in local currency. Now, by cutting the value of Indonesia's currency by 75%, the wages paid to these people was also reduced 75% in dollar terms. This brought a change of government, and thereby removed politically entrenched local competitors.

This experience highlights a system of unlimited free trade in currencies, and the resultant mobilization of billions of dollars that can be deployed with no advance notice, at the speed of light, plus ½ minute (the maximum time it should take for the order to go from the telephone or computer to the trading pit). This system has shown itself capable of producing even worse results than the old international gold standard, in giving financial manipulators the ability to decide the fate of nations. Today, almost five years after the Asian currency debacle, the Indonesian government is still in tatters.

The European Central Bank, properly empowered to create money, backed up by the fact of Europe's combined size and production capability, can be strong enough to keep the monetary manipulators at bay. That would be good for the peoples of Europe, the America's and Asia.

In fact, Articles 73f and 73g provide the decisive power to stop currency manipulations. Under the terms of those sections the ECB can block disruptive movement of currency to and from 3rd countries for up to six months. Any member state can also take such action unilaterally against non-member countries. This valuable and appropriate power could be combined with further measures such as denial of visas, and even arrest warrants against those in the corporate chain of command of offending organizations.

## REGARDING GREAT BRITAIN

Great Britain has not yet signed on to integrate the British Pound into the Euro system, though it would be clearly beneficial to the English people. Even at this distance we catch glimpses of a propaganda campaign out of London, aimed at politically swaying the citizenry against joining. It appears in its present phase, as a somewhat racially oriented campaign based on English chauvinism. As in the past, we observe some of the best, and the worst, coming out of England.

The nasty element has given up trying to scare European leaders with economic theories, as in 1976 when Frederich Hayek, a professor at the London School of Economics, attempted to throw a theoretical monkey wrench into the plans for the Euro, in his essay *Denationalisation of Money*. Ridiculing the proposal of the new Euro as "utopian" he proposed instead that private banks in the Common Market be given full leeway for:

"...free dealing throughout their territories in one anothers currencies (including gold coins) or of a similar free exercise of the banking business by any institution legally established in any of their territories...This seems to me both preferable and more practicable than the utopian scheme of introducing a new European currency, which would ultimately only have the effect of more deeply entrenching the source and root of all monetary evil, the government monopoly of the issue and control of money...I have grave doubts about the desirability of (unifying Europe) by creating a new European currency managed by any sort of supra national authority."[1]

The American Libertarians have bought into Hayek's "grave doubts;" the non-English speaking European nations (and of course Ireland) have not.

The question of British participation in the European Monetary System is more important than would appear on the face of things. It is not that the Euro needs Britain in order to succeed. But if done correctly, integrating Britain into the European monetary system can help resolve a three centuries old problem that has plagued the world.

## THE EURO AND THE "PROBLEM OF EUROPE"

In his last book, *Tragedy and Hope*, Prof. Carroll Quigley defined the "problem of Europe" - i.e. that a united German powerhouse tends to become dominant - as really being the problem of England's reaction toward that potential dominance. He analyzed the English problem in terms of its financial establishment's desire or belief that England was an Atlantic rather than a European power and must be allied, or even federated, with the United States and must remain isolated from Europe. We see the fundamental relevance of Quigley's analysis to the present day, as elements in England try to keep the nation aloof from the

European Union.[2]

Without being too melodramatic, one visualizes that within England there still lurks the dark and powerful remnants of the "Bank of England Gang," for want of a better term. A doctrinally, hereditarily, or financially linked residue. If Britain were firmly in the European Monetary System that gang's power to disrupt either in America or Europe would be dramatically reduced, and they would be isolated there in the Atlantic, between two great powers, where they can wither away before doing any further damage to humanity.

The actions of the Continental Powers have been wise in terms of helping bring England into the system. The Community's soft approach toward England should be continued until the British people can relax and fully understand its in their best interest to align with Europe. Come what may, the door should remain open to them on favorable terms.

ACCOUNTABILITY

Article 35.1 is an important one - it gives the Court of Justice jurisdiction to review and interpret acts or omissions of the ECB. Presumably, not providing an adequate money supply sufficient for industry and commerce would be an omission. Central banks have been sued for this in the past, for example in the U.S. as we saw in Chapter 16.

The reader will sense that we are more concerned with the danger of too little, rather than too much money in circulation. That has historically been the case. It's doubtful the European wartime inflations could have been stopped. They were the result of paying for wars, not necessarily of monetary mismanagement. Chapter 22 discussed the German case.

**Institutionalize a formal review process**

One suggestion would be to establish an automatic formal review process providing for critical reviews of how the ECB is functioning after 5, 10, and 20 years. A broad based commission, working with the Court of Justice, could make recommendations with the necessary "teeth" in them to alter the ECB's performance, if that is called for. It's best that the process be automatic, and not subject to political decision later. In 1956 the U.S. Congress tried to organize such a review of the Federal Reserve System, but the bankers blocked it politically.

STATED GOALS

Article 105 states that "The primary objective of the ESCB shall be to maintain price stability." Continuing, the ESCB's task shall be to "define and implement the monetary policy of the Community…conduct foreign exchange operations …[and to] hold and manage the official foreign reserves of the member states."

But what may well turn out to be the most important statement of purpose in the ECB's founding documents are in the objectives listed in the amended B) Part One "Principles," Article 2:

"To promote throughout the Community a Harmonious and balanced development of economic activities, sustainable and non-inflationary growth respecting the environment, a high level of employment and of social protection, the raising of the standard of living and quality of life, and economic and social cohesion and solidarity among Member States."

However, it says this is to be done "without prejudice to the objective of price stability," by which they mean less than 2% inflation.

COMMENT

Here we clearly see the division in attitudes that hopefully will evolve into a healthy balance of forces in the Community. On the one hand there are the heavy footprints of the "High Priests" of economics and banking who appear to sincerely believe that "price stability" is a sufficient measure of success or failure of the EMU!

**Price stability, while important, could never be the primary objective. Price stability of what? Of a well functioning currency system that has been properly provided to the community - providing that currency system is clearly more primary than "price stability."**

In Article 2 we see the importance of clearly stating the obvious. For it is not obvious (or even desirable) to all, that the money system must be held accountable to foster desirable results. Article 2 is the human face of the EMU, the provisions that can serve to tame the worst misuses of the ECB, which the most myopic management might someday attempt to impose. Such poor policies have been imposed, for example, by the Federal Reserve System. A typical American banker's view would be that the money system is fine, as long as their own profits are being maximized.

In Article 2 is embodied a "silent" but important monetary principle: the correct vision that the money system must be managed to produce superior living results, not just to conform to dead theory. In other words, its success is defined in terms of the desired outcomes. The money system must be the servant and not the master.

POLITICAL INFLUENCE BLOCKED

Article 7 : "neither the ECB, nor a national central bank, nor any member of their decision-making bodies shall seek or take instructions from Community institutions or bodies, from any government of a Member State or from any other body. The Community institutions and bodies and the governments of the Member States undertake to respect this principle and not to seek to influence the members of the decision-making bodies of the ECB or of the national central banks in the performance of their tasks."

COMMENT

Again, we see the footprints of the bankers/economists. Is the ECB prohibited from reciprocal influence attempts on the member states? Are the political implications, already embodied in the (banker promoted) economic and monetary theories that will guide the ECB, going to be honestly acknowledged for all to understand?

LIKELY OUTCOME

As presently constituted the ECB appears superior to the Federal Reserve System. Consider for example the public ownership of it and its broad statement of social goals, which have no counterpart in the Federal Reserve. As presently written, however, the ECB does not stop an overly technocratic approach to running the money system, without enough thought (?) and detailed written provision for the human, social and economic requirements, which the money system must serve. To try to subordinate these elements to the mantra of "price stability" may indicate what some of the organizers intend. It is no secret that price stability, if achieved through overly restricting the growth in the money supply, will favor wealthy bondholders at the expense of both industrialists and the less well off, increasing the gulf between rich and poor, not through natural talents, abilities, or productive effort, but based rather on one group controlling the money system, measuring and proclaiming the success of that system in terms specially designed to favor itself.

That has almost always been the rule for monetary systems. However, the EMU need not repeat this mistake of the past. A stronger provision can be made in the founding documents to protect from such injustice and its resulting effects. If that proves impossible, then the question becomes whether the structure can react intelligently, after an overly harsh implementation, and become self correcting, or will it disintegrate in the direction of its national parts?

CONCLUSION

For the first time in three generations Europeans do not have the burden of rebuilding destroyed infrastructure, factories and homes. Instead they are poised to create a significant advance in their material well being and the social benefits that can accompany it. The main obstacle to such success may be poorly defined monetary theory.

The European Community's approach to monetary union - carefully deliberating the matter, publishing and then reworking its articles with informed input from many quarters and nationalities - is unique in the history of monetary reforms. Compare this to the secrecy, special dealing, and deception that has marked major reforms of the past such as the founding of the Bank of England, the First and Second Banks of the U.S., and the Federal Reserve System. This bodes well for the future of the Community.

However, the plan as formulated (May 1998, latest available documents) does not yet present sufficient detail in several areas. There are warning signs and contradictions in the stated objectives of the plan, which could become system breaking problems, depending on how the plan is implemented. The potential obsession with price stability is one problem. The system must avoid ideological rigidity, be alert to feedback, and be flexible to adjust course.

These trouble signs can be substantially reduced by clarification of the fiat nature of money as a legal institution of the Community, and the specification of the initial guidelines that the ECB will use in making increases in the money supply. Also, it should be clarified what conditions would cause a re-thinking, upward or downward. These are not matters that should be left vague, or couched in overly concise technical jargon.

The attempt to disconnect the money system from politics reflects a distrust of the citizenry in such matters. Of course it should have independence, like the Judiciary. But it must also be accountable, and it is through politics that the citizens express (indirectly) whether the money system is functioning well or not. In fact, they are the ultimate judges of that, not the high priests of an undefinable ideology, not some bank's board of directors, not an arbitrarily drawn list of statistics. The *raison d'être* of the money system is to serve the community, and history gives us little reason to place more trust in money systems controlled by elites, rather than by the citizens. If anything, the balance of monetary history indicates the opposite.

The Europeans are flexible and wise enough to make the necessary adjustments over time. The only question is the extent and type of external pressure that will most certainly be brought against them by elements in the U.S. and England to discourage a proper running of their money system.

THE EURO'S LAUNCHING AND AFTERMATH

In the last third of 1998, just prior to the introduction of the Euro (in January 1999), the U.S. dollar fell in foreign exchange markets. This meant that European currencies such as the German Deutschmark rose substantially, and thus the initial launching value of the Euro in terms of Dollars was artificially higher that the 1 to 1 (par) value desired by the ECB managers.

Starting out at about $1.18, or 18 cents over par, the Euro was overpriced and proceeded to decline in terms of dollars for 21 months. The English language press reported on this as though it indicated major problems for the Euro, and succeeded in scaring most market participants, even some sophisticated players, that the Euro might be dead on arrival. Much was made of its falling through par, and continuing downward. They forgot the events prior to launch, and they ignored that overpriced items tend to keep falling until they become underpriced.

Just as we predicted, the Euro bottomed at about 82 cents, almost exactly as much under par as it had started out over par.

At that point our projection was that it would rise through par to about $1.07-1.10, and could then be expected to oscillate around $1. We continue to hold that opinion.

Remember that, prior to the Euro's introduction, there was only one "world class" currency in existence - the U.S. dollar. Now there are two, and that truly represents progress for humanity. No one country should ever control the world's moneys. The next major development will be for China, Japan and others to introduce an Asian equivalent to the Euro.

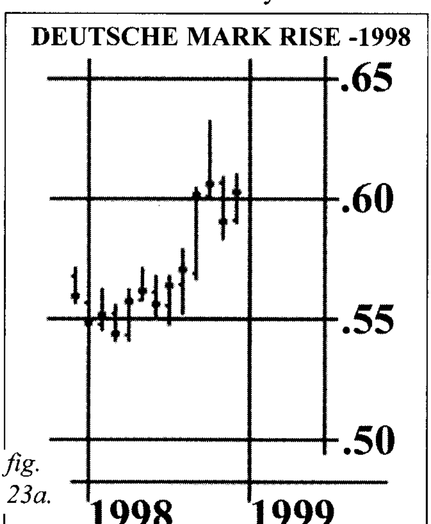

*fig. 23a.*

CONFLICT WITH EUROPE?

Hard as it is to imagine, there is now a potential for monetary (even military?) warfare between the U.S. and Europe. The phrase "dollar hegemony" refers to financial elements, generally but not exclusively in the U.S., using the monetary dominance of the U.S. dollar to politically dominate other countries and regions. This has reached the point where growing numbers of lesser developed countries have adopted the U.S. dollar as their official standard (for example, in South and Central America).

Although monetary control differs from military dominance, some


*23b.* **The ECB intended to launch the Euro at par with the U.S. dollar, but currency markets forced European currencies higher just prior to the launch so that the Euro came out at about $1.18. The decline from there may have been intended to spook the ECB into foolish actions, but failed to do so. A good sign for the new currency.**

of the effects are similar. As noted, in the 1960s General Charles DeGaulle understood how abstractly created U.S. credits were being used to buy up and control tangible French industry and property. He tried to restrict that process, but with only limited success, since Europe's de facto standard was to a large extent not gold or their individual national currencies, but the U.S. Dollar.

The Euro has changed that, beginning the process of taking Europe out from under the Federal Reserve's dollar hammer. Faced with European monetary independence, some really bad people may attempt a form of military domination instead. This possibility is raised, because NATO (North Atlantic Treaty Organization) appears to be emerging as a vehicle for such dominance. This became visible in NATO's disproportionate (and illegitimate?) bombing of Serbia including the city of Belgrade last year. This was done mainly under the direction of British and U.S. elements. These elements could be characterized as an Anglo-American Establishment, comprising the worst elements from both countries. In England, the same financially powerful element is presently blocking England's full entry into the European Community.

Thus, even without direct attacks, NATO (i.e. the Anglo-American Establishment) - has been militarily determining the political landscape of parts of Europe. At some point we expect to see the European Union develop a process to begin breaking free of NATO and to eventually seek its dissolution. Such moves are to be encouraged. Unfortunately, after the tragedy of the World Trade Towers on September 11, 2001 and the ensuing Bush Administration's "war on terrorism," nasty elements are finding it easier to promote this NATO vision of Europe, under cover of the crisis.

We must especially beware of those forces prodding the U.S. to take military actions that increase the probability of a long term religious conflict with Islam. Just who would that be convenient for? Not America; not Europe; certainly not the hundreds of millions of Moslems who would die. Such a development has the potential to derail the progress of humanity more than all the past tricks these groups have pulled, put together. One would have to seriously consider whether their real goal is not further riches and power for themselves, but death and destruction for much of humanity.

## THE EURO RESULTS THUS FAR

The results of the Euro have been impressive: upon introduction in 1999 it immediately became the world's second most important money, even before actual coin and currency began circulating in January 2002. Inflation has been kept near its target level of 2% annually and is expected to be under that in 2002.[3]

Production and economic growth have increased - 3.4% in 2000 - the strongest growth in a decade. Unemployment, though still high by U.S. standards, has dropped from around 12% to about 8%. These levels are less ominous than they would be in the U.S. because of the extensive safety nets Europeans maintain, including universal health care. Also because unemployment figures in the U.S. are understated.

The Euro area reported a strong balance of trade surplus but a weak balance for services and financial transfers. This resulted in a balance of payments deficit of E70 billion in year 2000. This deficit dropped to E9.3 billion in 2001, and the month of December 2001 showed a balance of payments surplus of E2.9 billion.

ECB President Willem F. Duisenberg's letter in their 2000 Annual Report notes that: "Financial markets have shown confidence in the determination and ability of the ECB to maintain price stability, its

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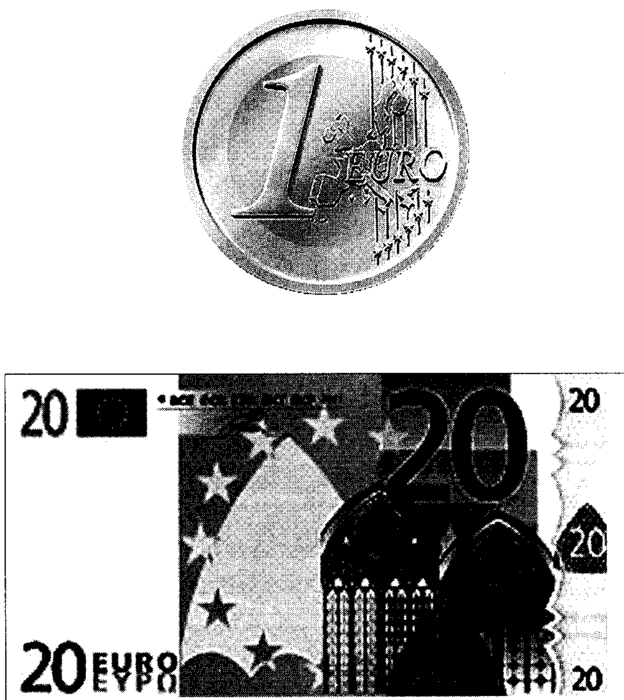
*23c.*
**Actual Euro coin and currency introduced in January 2002. A one Euro coin and a 20 Euro note are pictured here (not to scale). Notes have a common Euro theme on one side, and a national French, German, or Italian, etc, theme on the reverse. All are current throughout Europe.**



primary objective...The ECB has already built up considerable credibility."

Yet even in this "price stability" regime the managers have been able to adopt a general target of 4.5% annual growth in the money supply. That should be enough to avoid deflationary problems. The test will come when a situation arises where the banks don't want to create the new money, and the ECB will have to find a way to make that happen.

Duisenberg reports that "The first two years of the Euro have also shown that the policy-making framework at the European level is satisfactory. No major flaws emerged, as had been feared by some."

Also interesting is that the ECB had a net profit of 2.6 billion Euro in year 2000, and especially that "The profit made in the context of the ECB's intervention in the foreign exchange markets was a significant element of this result." Thus while the attack on the Euro in the foreign exchange markets temporarily interfered with building popular confidence, it was not without cost to the speculators.

All in all an auspicious launching of this important new development for humanity.

### *Notes to Chapter 19*

[1]Frederich Hayek, *Denationalisation of Money,* (London: Institute of Economic Affairs, 2nd edition, 1978), pp. 19 - 20.

[2] Carroll Quigley, *Tragedy and Hope*, (New York: Macmillan, 1966), p. 950

[3] These statistics and those that follow are from the ECB's Annual Report for the year 2000 and from from its January and February 2002 Bulletins.

# CHAPTER 24

# PROPOSALS FOR U.S. MONETARY REFORM

## TOWARD A FOURTH BRANCH OF GOVERNMENT

"These tremendous powers have been wielded
with such a lack of scientific or financial skill, and
in so narrow and selfish a spirit, that its arbiters have
repeatedly plunged the commercial world into bankruptcy,
and confiscated or inequitably redistributed its accumulated
earnings, either for their own benefit or else to save themselves
from the effects of their own blundering."

Alexander Del Mar[1]

Portia to Shylock: "For as thou urgest justice,
be assured thou shalt have justice, more than thou desirest."

Shakespeare's Merchant of Venice

Portia's words could be appropriately directed to those holding the U.S. monetary power. They piously call for "law and order" and ask for greater individual responsibility and harder work from their subjects, even as they make life more inhumane. Ever larger numbers of working families are slipping into poverty as more and more wealth concentrates in the hands of the very rich. In 1985 there were 33 million Americans living in poverty, but by 1995 it increased to 37 million. During that period 234,000 family farms were lost, and now close to 20% of American farmers live in poverty![2]

As Americans go further into credit card debt just to make ends meet, they are subjected to obscene rates of interest, around 20%. That this has been "legalized" makes a farce of the law. The usurers have had usury limits removed and are now actively bribing legislators to change the personal bankruptcy laws in order to assure that American debtors can be held in a form of perpetual bondage to them.

American vacations are a thing of the past, or have been reduced to a break too short to shake off the psychological stresses of an increasingly pressurized work atmosphere. The average vacation is now ten days. Americans hear of Europeans' five week vacations in disbelief.

In the enforcement of the laws, property, especially that held by financial institutions, is sacred, but industry is treated as subordinate, and labor is merely a pawn. Too many of the American poor, facing this bleak existence, and the American wealthy facing a meaningless one, try to escape into chemically induced hallucinations through drugs and alcohol. Their "wars on crime" have now imprisoned a larger percentage of America's population than any other nation on earth, over 1.5 million citizens, mainly on drug charges. They have made the building of prisons America's leading "growth industry."

An even darker side of the U.S. prison situation is the growth of private corporations' systematic substitution of prison labor (at 23 cents to $1 per hour) for normal labor. Prison labor is a form of slave labor. Some factories have been closed in order to move the production into nearby prisons. This has moved so fast that the various main line religious denominations have not yet reacted to this important development.

Europeans should understand where the policies of the free market gang lead, so they can reconsider whether they really want to blindly follow the U.S. In any case our current direction toward some strange form of "disneyland fascism," must change.

Much of the crime in the U.S. arises from an inequitable money system, which rewards those skilled in manipulating the financial rules, and neglects those doing an honest day's work. Some minorities succumb to the illegal drug trade because they have no alternative employment.

American blacks especially are limited from meaningful participation in the economy. On an individual basis they can rise above the obstacles and many capable individuals do. System wide, however, in an economy designed to ration work and keep a standing army of unemployed available to put downward pressure on wages, it's not possible for the group as a whole to overcome the disadvantages, which take their toll on large percentages of its members. It should come as no surprise then that blacks make up a disproportionate part of the U.S. prison population.

## WHO IS RESPONSIBLE?

Those in charge of the U.S. money system, and their predecessors, must bear a large part of the responsibility for this inequitable situation. They broke the banks in 1929-32 and would not re-establish the money supply except to make war. They proceeded to base the economy on the military industrial complex for five decades, amassing many thousands of thermonuclear weapons which could only be used if the Earth was being destroyed. In 1970-74, the system was kept from total collapse only by the perception that the Federal Deposit Insurance Corporation was government guaranteed.

The banking disasters of Penn Central, Continental Illinois, Franklin National, and the B.C.C.I. among others, have kept U.S. banking fraud in the headlines over the years. The Savings and Loan scandals of the late 1980s and early 1990s were a direct result of their removal of government banking regulations, and finally cost the American taxpayers over $100 billion to bail them out.[3] There is no comparable banking mismanagement to be found in any European country.

It appears to be a pillar of the U.S. "justice" system that the banking crime connected with these disasters must go essentially unpunished. This pattern for non-punishment of grand scale financial crime is ingrained in the English speaking world, beginning with the scandals surrounding the South Sea Bubble in 1721. Chapter 11 described how England's ruling elites were involved in that swindle. We must find a way to give these "financiers" the justice they deserve.

The author is not advocating a view of justice that ignores individual differences between men, or in which nature is denied, but is suggesting that the cannibalism, as embodied in our present money system, must stop. It is degrading to the human species.

## MISDIAGNOSIS OF AMERICA'S PROBLEMS

Maintaining a confused concept of the nature of money has allowed the money system origin of so many of society's serious problems to be obscured. For example:

### Balancing the federal budget

Balancing the federal budget is sold to the American public as a fiscal problem of balancing income and expenses. In the 1990s about 14% of the U.S. annual budget has been going to pay interest on the national debt. But this debt is unnecessary and arises out of a flawed money system. The problem thus becomes re-defined as one that requires monetary reform, not penny-pinching and parsimony.

**Actually there is no federal "budget"**

The budget debates are meaningless because the U.S. Federal Budget does not distinguish between capital outlays and operating expenses. Money for new buildings and equipment, computers, airplanes, roads, bridges, airports, etc. are treated like operating expenses and there is no capital side to the budget, where such items should be amortized over their many years of use. This fact alone sabotages the operation of our government.

**Deterioration of the American infrastructure system**

Again this results from not understanding that money should be created by government for such expenditures. Infrastructure spending is an excellent way to introduce new money into circulation, distributing it geographically, funding decent paying jobs and leaving valuable infrastructure for the citizens to use for many years. Good roads and bridges and brightly painted divider lines on highways also save lives.

The American Society of Civil Engineers' 1998 Report for America's Infrastructure is an unanswerable indictment of the current way America's monetary resources are allocated. The Report graded 10 major infrastructure categories and estimated how much money is needed to remedy the ills:

| Department | Present Condition | $ Needed for Repairs |
|---|---|---|
| Roads | D- | $357 billion |
| Bridges | C- | $ 80 billion |
| Mass Transit | C | $ 72 billion |
| Aviation | C- | $ 60 billion |
| Schools | F | $172 billion |
| Drinking Water | D | $138 billion |
| Wastewater | D+ | $140 billion |
| Dams | D | $ 1 billion |
| Solid Waste | C- | $ 75 billion |
| Hazardous Waste | D- | $750 billion |
| **Grade average:** | **D** | **Total Needed: $1.8 Trillion** |

**Nullification of local government**

The monetary strangulation of government occurs at the federal, state, and local levels. Small towns are forced into more debt in order to perform necessary functions. The interest costs on this debt approximately doubles the cost of all equipment, construction, or services provided.

Where the towns are up against debt limits, the lenders have contrived to lend to newly created quasi-official agencies, whose debts are guaranteed by the municipality. Local governments are being advised to merge activities with other localities to save money. Recently in our upstate New York area the emergency medical services (ambulances) were told to merge. That means a drop in services, with no drop in taxes.

**Rescuing Social Security and Medicare/Medicaid**

Lack of money to pay for crucial programs is again not a fiscal but a monetary problem caused ultimately by the false idea that government must get money only by taxation or borrowing. The distribution of newly created government money through such programs is an excellent method of getting new money into circulation; it would be widely distributed by population and geography, in small amounts.

**A broken down educational system**

Overcrowded schoolrooms and dilapidated buildings plague the education system. The problem is that most of the funding for schools comes from property taxes mainly on middle class homes. Its not unusual to pay $3,000 per $100,000 house valuation, each year in school taxes alone. This has gone beyond reasonable limits and more retired Americans are forced to slowly trade their homes for the tax payments. The federal government could be supporting education much more if it were in control of the money system.

Another larger problem of the schools is what's being taught:

"Everything is relative; there are no absolutes" translates in the students' minds into "there's no right or wrong." What's not being taught is how to think, how to reason and evaluate facts and experience to arrive at absolute, or probable conclusions.

But a financial system based upon so many falsehoods requires a high degree of ignorance in the population or the system will be seen through and be overthrown.

**Teen-age suicide and murder**

A regular anguish of American life are the news reports of yet another teenager who snaps mentally and shoots teachers and classmates. In addition, the suicide rate among American teenagers has risen dramatically: up 300% in the last 30 years. Whatever the individual facts and failings related to these tragedies, an important factor on the teenagers is the unbearable level of hypocrisy that our system now embodies.

Even the super-rich are not shielded from the violence. Consider the 1996 Colorado murder of 6-year-old Jean Bennet Ramsay right in the home of her multi-millionaire parents; the 1996 New York murder of the son of the billionaire Chairman of Time Warner company; the 1996 murder in North Carolina of the father of half-billionaire basketball superstar Michael Jordan; the 1997 murder of the son of half-billionaire entertainer Bill Cosby in California; the 1997 Florida murder of multi-millionaire designer Gianni Versace.

**Absence of a national caretaker**

Behind these problems is the fact that the nation is controlled more from behind the scenes by financial institutions than by the citizens through elections.

*When society loses control over its money system it loses whatever control it might have had over its destiny.* It can no longer set priorities and the policies for achieving them. It can't solve problems, which then develop into crises and continually mount up.

Its leaders substitute public relations for action and although the media is part of this pretense, an awareness slowly develops that there is "nobody home" in Washington. Nobody is taking care of America. People stop voting and a deep sickness of the spirit develops.

## MONETARY REFORM IS CRUCIALLY NEEDED

It's long overdue to admit that the money system is responsible for so many social crises. Basic monetary principles can then be applied to reforming the money system to help resolve society's most serious problems. Implementing the reforms requires effective political action.

## MONEYS' NATURE MUST DICTATE MONETARY REFORM

Readers should now understand what money is - what it is we are reforming. We've noted our inheritance from past genius:

**from Aristotle** - "Money exists not be nature but by law;"

**from Plato** - "a money token for purposes of exchange;"

**from Paulus** - "This device being officially promulgated, circulated and maintained its purchasing power not so much from its substance as from its quantity."

Then after a long darkness,

**from Berkeley** - "Whether the true idea of money as such, be not altogether that of a ticket, or counter?;"

**from Locke and Franklin** who viewed money as a pledge for wealth rather than wealth itself;

**from Del Mar** we have:

"...what is commonly understood as money has always consisted, tangibly, of a number of pieces of some material, marked by public authority and named or understood in the laws or customs: that its palpable characteristic was its mark of authority; its essential characteristic, the possession of value, defined by law; and its function, the legal power to pay debts and taxes and the mechanical power to facilitate the exchange of other objects possessing value.";[4]

**and from Knapp** - "Our test, that the money is accepted in payments made to the states offices."

**We accept these concepts and add: Money's essence (apart from whatever is used to signify it), is an abstract social power embodied in law, as an unconditional means of payment.**

This can be referred to as a socio/legal *Constitutional Concept of Money*. Wordsmiths are invited to submit a nicer sounding title to the AMI. The term "*Societal Concept of Money*" also fits well. Perhaps simply the *"Nomisma Concept of Money,"* or just *"Nomisma"* is sufficient. We could also call it the *"Aristotelian concept of money,"* in his honor.

A good money system will accomplish the above goals in a just and efficient manner, assisting the widespread creation of values for living. A bad one will raise unnecessary obstacles to the production of values, establish privilege and corruption, and concentrate wealth and power into undeserving hands. We presently have a very bad one.

This book has shown that it is historically self evident that the best money systems have been controlled and monitored through law, by public authority. Leaving the money power in private hands has invited, even assured, disastrous results. This is also consistent with the logic of money: since the money system is a creature of law, it rightfully belongs within government, just as the law courts do.

**We propose that ultimately the monetary power should be constituted as a fourth branch of government, like the executive, judicial and legislative branches. We have concluded that the nature of man and of society requires four, not three, branches of government.**

# REFORMING THE U.S. MONETARY SYSTEM

"Specialists without spirit, sensualists without heart;
this nullity imagines that it has attained a level of civilization
never before attained."

Max Weber [5]

Max Weber's comment was directed at "victorious capitalism...In the field of its highest development, in the United States." The smug attitude he observed in the early 1900s continues today and presents a substantial obstacle to reform. A pre-condition of reform is usually to appreciate why it is needed.

In America today, monetary reform is not yet a mainstream issue. Among those who are interested, many fall into error in several marginal and futile areas: those supporting a gold standard; supporters of so-called "free banking;" advocates of various LETS systems; and lastly the "all money is debt" people.

## THE GOLD PROMOTERS

There is always a small fervent faction composed of conservative elements, some fundamentalist religious folk and lots of people with a financial interest in gold mining or coin investments. Unaware of all the historical evidence to the contrary, they have convinced themselves that a gold standard would be good for the country.

But history shows that over and again the so-called gold standard has been little more than a ruse and a way to concentrate special monetary privileges into the hands of a plutocracy. Examples include the first and second Banks of the United States, the various state banks, and the early Federal Reserve System, all described in previous chapters.

The misinformation being spread that a gold standard helps the common man because it stops inflation misses the point. First, it does not always stop inflation, as we saw in the doubling of prices from 1917-1920, or the 400% rise in prices in the sixteenth century. More recently, from 1971 to 1974 gold rose over 500% from $38 to $200 an ounce. In 1975, gold dropped 50%, to $103. It then rose 700% to over $800, and then declined to $238. These movements were not due to changes in the dollar. Gold does not represent an objective value and to base a money system on it would be folly.

Secondly, labor and industry have suffered far more from deflation or restriction of the money system than from inflation and a metallic-based money system is normally a formula for deflation. In a deflation, it is 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 in more valuable money. As industrialists in a society are usually large debtors, industry is harmed and this harm is quickly passed through against labor, while also harming production.

In the late 1800s Henry George derided the idea of metallic money: "We are digging silver out of certain holes in the ground [called mines] in Nevada and Colorado and poking it down other holes in the ground [called vaults] in Washington, New York, and San Francisco," he wrote.[6]

Robert de Fremery made these salient comments on a gold standard:

"Would it be wise to have such a currency convertible into gold? Certainly not. That would make it a credit currency - the very thing that has caused so much trouble. There are people who look with distrust upon 'printing press' or 'fiat' money. But they overlook one of the basic facts about money. It is true that we need a 'hard' money. But we should not make the mistake of associating 'hardness' with convertibility into gold. The essence of a hard money is not determined by the material of which it is composed - or the material into which it is convertible. The essence of a hard money is that its supply is fairly stable and there are precise limits to it… And a purely paper or 'fiat' money can be a hard money if we set precise limits to its supply, or it can be a soft money if we set no precise limits to its supply."[7]

THE "FREE BANKING" IDEOLOGUES

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 markets will allow. But isn't it really up to these advocates to define their own terms if they want to be taken seriously?

The "free banking" advocates misuse the deductive method and take *laissez-faire* beyond applicable limits, insisting bankers can be allowed to issue unlimited amounts of money, as long as customers are willing to accept it. But Professor Soddy explained why this can't be allowed:

**"The issuer of money who first passes it into circulation cannot help getting something for nothing, namely the exchange value of the money…the value of everyone's holdings of money is directly affected by every new issue or cancellation…It reduces to a hypocritical**

**sham all the enactment's...to insure just weights and measure."[8]**

Remember, if government issues the money, it is essentially a tax, the proceeds of which are available to benefit the society. If the bankers are allowed to issue money, they will primarily enrich themselves.

We discussed several of the problems with the free bankers in Chapter 16. These fellows realize that men can have the freedom of most action that does not harm others; but they don't understand that when a private party creates money it represents a punch in the face to everyone else! By now our readers should be aware of that.

The economist Milton Friedman, after years of resisting the free banking supporters, then appeared to embrace their position, or at least acquiesce with it. Hopefully he will take another look.

LOCAL CURRENCY ("LETS") ADVOCATES

A third grouping has apparently given up on reform and is attempting to establish local currencies called LETS (Local Exchange Trading System) to supplement the national circulation. These LETS systems vary from locale to locale, and are not always as well defined as one could ask. They are normally well meaning attempts to remedy the shortage of national currency that undeniably exists in many localities. Mainly they enable participants to trade their labor and some other items with one another without using the national currency.

These systems can be traced back to Josiah Warren, the originator of the Labour Exchange idea, put into practice by Robert Owen in London in 1832 following a very tight money period. The problem is that while these local systems do no financial harm and can alleviate local cash shortages, they have been of very limited benefit, and generally soon end.

These currencies will continue to be limited unless they can qualify as a true money form. That means taxes, at least local taxes, have to become payable in them. One would then expect them to be issued by the taxing body. At present this is not possible, except in emergencies. Even state governments are forbidden from issuing their own currencies.

Furthermore, such local currencies *do not stop the continued mismanagement of the money system at the national level* - they can't stop the continued dispensation of monetary injustice from above through the privately owned and controlled Federal Reserve money system. Ending that injustice should be our monetary priority. Thus the real harm done by "LETS" systems is to distract otherwise concerned citizens from advocating real reform.

## THE "ALL MONEY IS DEBT" FACTION

This group confuses the nature of money, through their observation of one perverted form of it. They say that since most of the money in circulation is in the form of credits issued by banks (which are also debts to those being credited), that therefore the nature of money is that it is always debt, and some of them define money as "assignable debt"!

This viewpoint was especially spread out of England (see the discussion of A. Mitchell Innes in Ch. 19) and in considering why they have so much difficulty understanding the concept of money apart from debt, the author realized that the English have no historical tradition of government issued money comparable to our own. For as we have seen, while the Massachusetts colony issued government paper money in 1690, in 1694 the privately owned Bank of England took over England's money issuing process, and kept it in private hands until the nationalization of that bank in 1946.

Credit can function imperfectly as money, when it has been (improperly) monetized under the law. For example the legal treatment of the private Federal Reserve notes as money by accepting them for taxes and making them a legal tender.

**But these credits are only one form that money has taken, as recognized both in Del Mar's and in Knapp's definitions. Those who argue that it is the only form of money, should realize that they are actually defining "money" out of existence, and substituting "credit" for it. Money and credit denote two different things. That's one of the reasons we give them separate names.**

A society such as the U.S., depending on private bank credits in place of government-created money, is operating in moral quicksand. It has established a special privilege of power for those private parties issuing the credit - the bankers. As Prof. Soddy and others have shown, this cannot help but do serious harm to the population as a whole.

It is contrary to the spirit of the U.S. Constitution, and, if one considers that this monetary privilege amounts to the formation of an aristocracy, it is also contrary to the letter of the Constitution (*Art. I, Sect 9*).

Such immorality leads to serious troubles. Properly constituted government money, except when spent on warfare, tends to be used for those things and items of infrastructure of concern to the state - the broad interest of the citizens such as bridge and road and water infrastructure; public health and education.

Private credit tends to go for fast profit, defined in its least productive manner; for quickly getting back more than one gives, in terms of shuffling paper instruments. As we have seen, monetizing credit - in particular private bank credit - can lead to such poor results that it even makes the primitive practice of monetizing "precious metals" look good! And in that regard, the "goldbugs" do have a point.

The apologists for banking privilege argue that the banking business is open to all those who have enough money to satisfy the legal and financial requirements. But that is a variation of the argument put forward by John Law in the early 1700s, who remarked: "All may share in the establishment of the bank through ownership of it."

We discussed this in Chapter 12, and noted how much more appropriate and convenient, for all to benefit, if the bank of issue is a National Bank, owned and operated by society. It's a mystery why otherwise intelligent persons don't see that such a privilege would necessarily fall into the hands of the already wealthy, unjustly enriching them, and further aggravating the obscene concentration of wealth in America.

To say that this "business" is open to all, is also reminiscent of the Roman "Ager Publicus," the lands that were owned by the Roman state in the 1st and 2nd centuries BC and were, in theory, available to be used by all Roman citizens. But only the wealthy could take advantage of the possibility, as discussed in Chapter 2.

Modern apologists also assert that bankers are generally of "high moral character." But why would moral people seek to gain an unfair advantage over their fellow citizens, through a little understood legal privilege, to engage in a process that necessarily robs from society and historically gives little or nothing back to society? This is very different from the kind of license a doctor obtains to practice medicine. For the doctor must provide valuable services to his patients, for which he is paid. Bankers, with the privilege to create money *can pay themselves*, one way or another.

Some apologists assert that the modern profit margins of banking are not unreasonably high, again missing the point. Instead of earning profits from their operations, bankers would probably be willing to pay for their banking privilege if necessary, because of the power it gives them; a power that can always translate into riches.

More important than their "earnings" is the power they usurp: they control the rationing of credit. If that credit has been improperly substituted for money, the bankers are more in control of the society than is the legislature, executive, and judiciary, not to mention the citizens.

## GOVERNMENTS RESPONSIBILITY TO PROVIDE THE MONEY

We regard the provision of the money mechanism to society by government as a major advance over any prior barter or credit arrangements. The author agrees with Knapp's evaluation of this step: "The most important achievement of economic civilization, the chartalism (using tokens for money) of the means of payment."

Private credit being used as money is conditional; it depends on the ability of the issuer of the credit to stay solvent and to maintain an image of solvency. It unfairly transfers wealth and power to a privileged few.

As long as we maintain our memory of the Greenbacks, the "money is debt" position will be seen as false. For we know that they were not debts, but money. We can understand why the bankers were so anxious to remove the Greenbacks from circulation, where they provided a daily practical lesson in "monetary theory."

The effect of the "all money is debt" viewpoint is to eliminate the real concept of money. That only serves the interests of bankers.

## REFORMING THE FEDERAL RESERVE SYSTEM

Fortunately there is a monetary reform that can reach our goal for the nation to control its own money system, and to end the monetary privileges that the financial classes have grabbed. This is our best and most direct course of action - the real thing. Reform can begin, even without a complete and detailed blueprint of the ideal money system to be ultimately reached as long as reform is consistent with the nature of money, and considerations of justice play the major role.

That is not to say reform can proceed in a half-baked way with under-developed knowledge. That could do more harm than no action at all. Special care must be taken to avoid a program that leads to deflation, as some past monetary reforms have. In chapter 15 we saw how Van Buren and Jackson's well meaning anti-bank reforms adopting metallic money resulted in the worst depression the country had seen. The not so well meaning English reform after the Bullion Report, discussed in chapter 11, also led to deflation and depression.

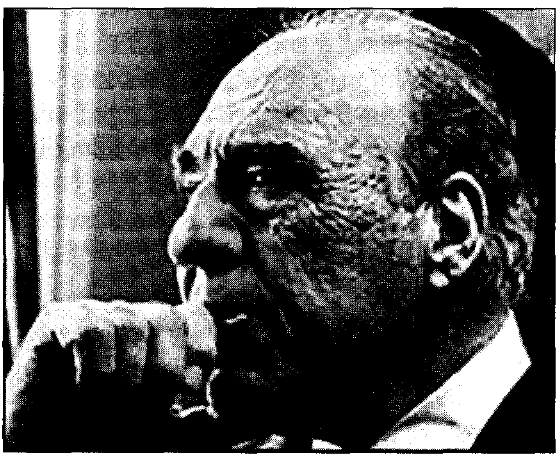
The American Monetary Institute's strategy for monetary reform is to concentrate on three minimal reforms that place time on the side of justice instead of against it as at present. Then other questions can be resolved and refinements can be made over time without a crisis atmosphere. These minimal reforms should be agreeable to thoughtful, honest observers; but on these three points there should be no compromise:

REFORM # 1: NATIONALIZATION OF THE FEDERAL RESERVE

Since issuing money is a proper function of government the first essential point is for the government to regain direct control over the nation's money system and become the sole issuer of money. How? At the onset of the next (or the next) banking created crisis, instead of once again bailing out the bankers and saving them from their latest malfeasance, our government, with sufficient political support, should nationalize the Federal Reserve System as England nationalized the Bank of England in 1946.

This is not as far fetched as some people tell themselves. Several past Chairmen of the House Banking Committee have introduced bills to do away with the private Federal Reserve System, including Wright Patman, and later Henry Gonzales, the chairman until 1994. But these proposals did not receive any attention from the media, and little popular support was generated for them. That is what has to change.

Henry Gonzalez' bill would have repealed the Federal Reserve Act, but the American Monetary Institute prefers to keep the Fed intact, in



*24a.* **Congressman Henry Gonzales, Chairman of the House Banking and Currency Committee until 1994, regularly introduced legislation to repeal the Federal Reserve Act.**

recognition of the extensive experience, know-how and administrative procedures developed there over the past nine decades. For example, their knowledge of the necessary seasonal variations needed in the money supply. However, the Fed's role and mandate would change, as it would be nationalized and function as part of the U.S. Treasury.

The process of reform starts with an understanding of money's nature as a legal institution, not a commodity, or so-called economic good. The legislation nationalizing the Federal Reserve System must

*24b.* **Congressman Wright Patman, Chairman of the Banking and Currency Committee from 1963 to 1975, did his best to alert Americans to the dangers of the Federal Reserve System. Patman was also the first to call for the Watergate investigation, repaying an old "debt" to President Richard Nixon.**

explicitly recognize that fact, with an accurate definition of money.

The process of building political support for nationalization of th Fed could use market oriented actions such as boycotts. The selectiv direction of pension fund assets and mutual fund investments could b used as a means of both moving toward reform and alerting investors t its necessity. For example, most banking shares and their satellite cor porations would be boycotted as part of a socially conscious investmen policy. The impact could be enormous.

An important project the American Monetary Institute is workin on, and seeking funding for, is the development and testing of guideline for socially responsible investing, using such monetary "filters. Socially conscious investment managers could then consult our grad ings. To keep abreast of our work on this, periodically check our web sit (http://www.monetary.org).

Short term, once in charge of the money system, the U.S. Treasur could carefully start to use modern American Greenbacks - debt fre U.S. money - to break the current depression and near subsistence level so much of the population is still mired in, even as Wall Street ha soared. For example, debt-free money could be used to build and re build roads, bridges, water and sewer systems, and schools and air traf fic control systems called for by the American Society for Civi

Engineers. In addition, quality low-cost housing and the Internet freeways are worthy projects. New U.S. money could be used to clean the environment and to assure that the Social Security and Medical programs continue to function and improve. Universal health care is also a priority. Above all else, the general level of education - the reading and thinking abilities - achieved by the typical American needs to be raised.

By careful trial and error, not just isolated theory (which has been custom designed for bankers), the Treasury will determine about how much money should be in circulation, and to what degree to base it on population figures, industrial production, and other measures. The managers would be aware of Ben Franklin's observation that it is better to err on the side of a little too much money, rather than too little.

### WHAT WOULD SUCH MONEY BE LIKE?

To see an example of this superior money form, the reader need only check his or her pockets for quarters, nickels, dimes, pennies, or dollar coins. The United States Government puts these coins into circulation through the Treasury's mints. *No interest is paid on them and they do not add to the national debt.*

Such copper-clad coinage could also be minted in much higher denominations. But since paper is more convenient, cheaper, and now harder to counterfeit, most U.S. money would take that form. In future money may be in an electronic form, but the essential point is that only our government should issue American money.

### HOW DOES THE PLUTOCRACY RESPOND?

Those holding the money power have promoted a two century smear campaign against government to raise the fear of inflation under such a system, even though the evidence clearly shows greater monetary abuse by privately controlled money systems than by government ones. That's why economists are steered away from the study of history.

In this smear campaign they still advertise the 600-700 year old cases of monarchs "debasing" their coinage, but never give the context that this kingly abuse occurred after the collapse of monetary order with the fall of Byzantium in 1204 AD. They don't mention that much of the alteration in coinage was an accepted form of taxation, or that Republics generally fared much better monetarily than monarchies. Nor do they discuss the much greater monetary problems caused by private bankers during these times (all discussed in Chapters 4 to 8).

In more recent times, during warfare, the money power acquiesced in government issued money to assure their own survival, as in the

Revolution and the Civil War. Or when allowed to get away with it, as in WWI and WWII, they issued the money in large quantities themselves. They knew the resulting production would be blown up, sunk or be useless and not become new consumer goods or production facilities or improved infrastructure, which would have lowered prices, benefitted the populace, and made the people more independent of the bankers.

Warfare thus became associated with "getting the economy moving." But it wasn't the warfare; it was the accompanying monetary and production activity that did it.

We haven't seen modern cases in the English speaking world where such high levels of money creation were directed into real production, and not specifically destined for destruction. Partial exceptions are the limited efforts undertaken by Roosevelt after the Great Depression, which gave us projects like Hoover Dam, and the water and sewer systems still used in our upstate New York area. Another exception was NASA's all-out effort to reach the moon, which fostered much of our modern miniaturized computerization.

In short, the Plutocracy's inflation theme is "the big lie."

## TOWARD A FOURTH BRANCH OF GOVERNMENT

**Longer term, it will become recognized that the monetary power is stronger and more pervasive than the three other branches of government. In keeping with its actual power and importance in the daily lives of the citizenry, *the monetary department should evolve into a fourth branch of government.* In fact that's what it is now, but it's run mostly for private gain instead of the common good.**

This fourth branch would refine and codify its protocols in ever-increasing accuracy, starting from the point of considerable technical knowledge and expertise already embodied in the Federal Reserve apparatus. The overall objective, however, would be changed. Instead of managing the money system to further enrich the leisure class, helping them create and rule their "New World Order," the goal would be to "promote the general welfare," an explicit objective of our Constitution. And yes, a new order of the world would evolve out of this, but not the slave system we are presently headed for.

## NEARLY ALL CITIZENS WOULD GAIN

Those who want smaller government would be happy to see that it could shrink, since so many of its present day activities, started to counteract the inequitable effects of an unjust money and banking system, would no longer be needed. Those who want more government controls would be happy to see the need for such controls disappear as the type of corporate predators now in charge would find most of their funding and power cut off. Those who want to abuse government for their own private gain would find it much harder to do that.

AND THE LOSERS WOULD BE...?

Those presently benefitting from special monetary privileges would find those benefits ended; *but even for the majority of them* the improvements in the quality and security of life and the release of new creative and industrial energy resulting from a fair money system would likely outweigh any loss.

Only that tiny fraction of a percent at the very top would be big losers; but considering what they have been doing, shouldn't they be happy to escape with their lives - if they can?

There's one more group of losers: the type of ideologues who value so-called free markets above life itself - other people's lives, that is. These apologists, largely economists, devote careers to justifying the worst predations upon mankind. In their hands those economic theories are used as bludgeons to beat down their most vulnerable fellow men.

THE FACE OF EVIL

Most would agree that, where evil is being purposely done under cover of economic theory, it should be clearly identified and thereby destroyed. Some economists will scoff at being characterized as evil for merely making deductions from their beloved theoretical premises that they place their faith in, for merely acting as good priests of their hallowed market god.

But they truly serve an evil deity and the fruits of their theories grow monotonously bitter. The hallmark of those intent on doing harm is their ever readiness to take current benefits from the common man, promising him instead some imaginary heaven in the long term, to be made possible by the intercessions of their god, *Hand, the Invisible*.

Somehow their theories always manage to reserve the current benefits for wealthy predators, parasites really, who in the main part fund their salaries. At present, society is in trouble to the extent that these "econo-myths" dogmas are being followed. Their prescription? - yet more "free market discipline"- their brand of free trade theories dictate that American workers must compete with underpaid workers in countries where labor has minimal rights and where environmental concerns are ignored; with what is in effect a form of slave labor. This props up foreign tyrannies and supports the investments of the economists' patrons.

Of course not all economists are evil. Many moral economists are just afraid of losing their jobs, or have fallen into a rut of mental obedience. But it's long overdue for those able to think clearly to become much more vocal, and not just between themselves but with the public in clearly understandable language. Galileo had to be severely threatened - he was led through the Vatican's torture rooms and shown some of their devices - before he mouthed the "party line." But economists appear almost anxious to kneel and serve corrupt power. Time to stand up, boys!

REFORM # 2: ENDING FRACTIONAL RESERVE BANKING AND INSTITUTING THE 100% RESERVE SOLUTION

The reform process will soon arrive at requiring banks to hold 100% reserves for money that they lend. To phrase this more universally, banks can lend what has been deposited with them, but would not be allowed to create money, beyond some minor specified amounts. Private money creation has been the source of the bankers' power. It has also been the source of the periodic crashes of the system.

Most economists, even good ones, will panic at this proposal because their mindset can't conceive of the banks as servants rather than masters. **But far better methods can quickly be found to introduce new money into the system and properly direct it toward real production and improvement of values for living, methods far more effective than private banking has been.**

Banking panics occur because banks have the privilege to create money in the form of bank credits on their books. The banking system's reserves of actual money are often only one tenth (or less) of these bank credits. They used to do this in the 19th century by printing about ten times the number of banknotes as the coinage they held. Now since the Federal Reserve notes are money the way the coinage used to be, they do it, system wide, by creating new credits on their books to a multiple of the amount of paper money and old credits they have received.

The banking system pretends that these bank credits are equivalent to money, but they are not. For they depend on the Bank's image and ability to stay liquid and pay its depositors; whereas paper money in hand is more secure. In the words of Robert de Fremery:

"This essentially fraudulent practice multiplies bank deposits that exist only as book entries...but making this unsound practice legal doesn't prevent the public from periodically losing confidence and asking for its money. The result is panic and depression."[9]

## AVOIDING BANKING SYSTEM PANICS AND COLLAPSES

But how can we restructure our present unstable banking system in which banks do create money? The Austrian School of Economics for decades has been mis-educating Americans that any credit expansion must be followed by a crash, and many American conservatives and Libertarians now believe this. For example, Ludwig Von Mises writes:

"There is no means of avoiding the final collapse of a boom brought about by credit expansion. The alternative is only whether the crisis should come sooner as the result of a voluntary abandonment of further credit expansion, or later as a final and total catastrophe of the currency system involved."[10]

This fatalist doctrine is being spread in America, setting people on the wrong course regarding how to react in their personal investments and in the determination of banking policy. It's based on what we may justly refer to, after 23 chapters of demonstration, as the "childish" view that money is a commodity or "economic good." If the Austrian School understood the nature of money *as a social/legal invention* of mankind, they'd have to abandon their conclusion that catastrophe is inevitable.

De Fremery points out that:

"A more plausible theory is that all economic activity is continually reaching a new equilibrium between the total circulating medium of exchange and the goods and services offered for it. In other words, an expansion of bank credit leads to a collapse not [only] because of mis-directions in production but rather because of the operation of Gresham's law. The use of bank credit as a medium of exchange gives us what Bishop Berkeley called a 'double money.'..."

The reason for the collapse then is the preference for the cash money as opposed to the bankers' credit money, resulting in runs on the banking establishment to draw out cash.

***"According to this theory, it is possible to avoid a collapse following a period of credit expansion simply by converting the existing volume of bank credit into actual money having an existence independent of the debt, and at the same time take away the banking system's privilege of creating any more credit, i.e., force banks to confine their lending operations to the lending of existing funds."***[11]

Those who hold a commodity view of money can't accept this possibility because neither gold nor economic goods can be brought into existence out of thin air, to change the bank credit into their idea of real money.

When one understands the nature of money as an abstract legal power, it clearly becomes possible for the government to create and substitute such trusted real money for the already existing, suspect bank credit. Thus we are not held hostage to preserving the existing flawed banking system, or to risk bringing down the whole structure.

## WOULD IT HAVE WORKED IN 1929-32?

Could this "100% Reserve Solution" have prevented the Great Depression? Could the situation be rescued even after years of mismanagement by the bankers, and after the panic set in? The answer to these questions is "yes." The "100% Reserve Solution" has some marvelous, almost magical effects. It is a way to get to 100% reserves without disrupting the banking system, or calling in loans and creating a financial disaster. *It is done by increasing the reserves held by banks.*

## SODDY AND SIMONS DEVELOP THE 100% RESERVE SOLUTION

Under this plan the banks are required to establish 100% reserve backing for their deposits, *in this unique way:*

The U.S. Treasury would loan freshly created U.S. paper currency to banks to bring their cash reserves up to 100%. The banks would pay interest to the U.S. on these loans. If the Fed had not yet been nationalized, then Federal Reserve Banks would also borrow from the treasury sufficient new currency to bring their cash reserves up to 100% of their

*24c.* **Frederick Soddy was Lee Professor of Chemistry at Oxford. In 1921 he received the Nobel Prize in chemistry and laid the groundwork for the "big bang" theory in cosmology. He also brought great clarity of thought to the problem of banking panics and invented the "100% Reserve Solution." This is emphatically not the same as merely requiring 100% reserves, presently being advocated by some misguided monetary reformers.**

demand deposits (funds deposited by their member banks for safekeeping plus all government funds against which checks are being drawn by the government). The amount of U.S. securities (T bills and T bonds) held by the Federal Reserve and other banks would be credited against these borrowings, canceling an equal amount.

*Thus the 100% Reserve Solution is totally different from just requiring banks to keep 100% reserves, which would cause a disastrous deflation, and a repudiation of all monetary and banking reform.*

But with this elegant plan, all the bank credit money the banks have created out of thin air, through fractional reserve banking, would be transformed into U.S. government legal tender - real, honest money. All of the prior U.S. debt extended in the old bank created money (banking credits) would be canceled out by the banks' new borrowings from the U.S. The approximately $600 billion of U.S. bonds held by the banking system (in 1999) would go out of existence, lowering the U.S. national debt by that amount.

The banks would be panic proof, having by definition enough cash to pay all claims, without requiring a financial calamity through repudiation and contraction. The reform would not fix cases where banks and borrowers engaged in extraordinarily foolish loans, but the resulting bankruptcies from them need not destroy the whole system.

The concept behind the 100% Reserve Solution was discovered by Nobel Laureate in Chemistry Frederick Soddy in 1926. During the Great Depression, Henry C. Simons was a professor at the University of Chicago, my alma mater. Simons independently rediscovered the 100% principle in 1933, and proposed it as the way to end the depression and prevent future banking panics.[12]

In July 1939, the plan was endorsed and put forward in a pamphlet by Paul H. Douglas (University of Chicago), Irving Fisher (Yale), Frank D. Graham (Princeton), Earl J. Hamilton (Duke), Wilford I. King (NYU), and Charles R. Whittlesey (Princeton). It was circulated to most members of the American Economic Association involved in monetary or banking matters. Hundreds of economists, mostly professors, signed on to the plan. Robert De Fremery gave the AMI a rare copy of the proposal, including a list of those good economists. The Federal Reserve System was aware of the plan but did not even acknowledge it!

100% RESERVE SOLUTION NEED NOT BE DEFLATIONARY

This reform would be neither inflationary nor deflationary, because it would simply make real what had been thought to be the existing monetary levels. From that point, it is crucial that alternatives to bank created credit be used to make necessary increases in the money supply.

For example, newly created money could be spent into circulation by government paying for social security and universal medical coverage for the nation. Or it could be loaned into circulation in interest free loans from the federal government to local governmental bodies (from school boards to states) to be used only for infrastructure construction and repair. This would cut the cost of all such infrastructure in half.

These and other sound alternatives are available now. More can be developed through careful thought, and even more careful trial and error. For banking institutions to continue making new loans they simply would have to attract such new money from depositors or investors.

CONGRESSMAN VOORHIS PROMOTED THE 100% RESERVE PLAN

Into the 1940s, California Congressman Jerry Voorhis advocated the 100% Reserve Plan. Then the bankers' lobby financed Richard Nixon's first congressional campaign against him. Nixon ran a dirty campaign, smearing Voorhis as a communist, and got elected. Voorhis learned from one of his neighbors, who was Nixon's campaign manager, that the American Bankers Association had financed Nixon.

"IKE" WAYLAYS THE PATMAN PROBE

Voorhis then worked with House Banking Committee Chairman Wright Patman in 1956 on the "Patman Probe," which was to formally examine the results of the Federal Reserve System, on a scale like Aldrich's Monetary Commission of 1908-12. As the bill to create the Patman Probe was being passed in the House of Representatives, the bankers' lobby pulled 31 congressmen from the floor of the House and told them to change their votes or face defeat in the next election. The lobbyists later went to President Eisenhower to head off the probe. "Ike" told them not to worry - he'd set up a "blue ribbon" group of bankers to "study" it. Thus meaningful monetary reform has not been on the political horizon for over a generation in America.[13]

DE FREMERY KEPT THE 100% RESERVE SOLUTION ALIVE

The work of Robert de Fremery (1916-2000) has kept the concept of the 100% Reserve Solution alive today. For decades he wrote articles and corresponded with economists on the necessity of banks to maintain 100% reserves. His two books, *Money and Freedom* (1955) and *Rights vs. Privileges* (1992) have clearly explained why:

"Is it not obvious that there are serious defects in our banking system and our tax system that deprive most of us of fundamental rights and bestow enormous privileges on others?...How many riots must we endure? How many prisons must we build? How many of our rights must we lose? How many of our young people must be sent away to fight in foreign wars before we decide that enough is enough?"[14]

DeFremery believed that monetary reform had to be combined with changes in the taxation system along the lines proposed by the 19th century land reformer Henry George, and known as the "single tax," in which the full rental value of unimproved land goes directly to society as taxation. It's a concept originated by the French Physiocrats (they called it the "impot unique") and the idea deserves more attention than it is presently given. Father of the Revolution Thomas Paine held a similar viewpoint toward land. See de Fremery's *Rights vs Privileges.*

De Fremery thought that unless land reform accompanied monetary reform, the concentration of wealth and power spawned in either area would soon re-establish a system of corrupt privilege in the other area. In the author's view, implementing our three major reform points will create a climate of reform where other matters can be scrutinized and acted on.

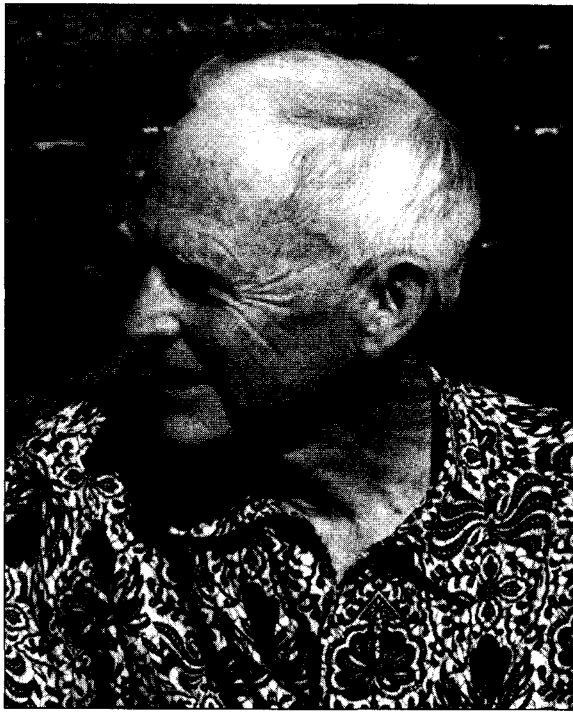
REFORM #3: INSTITUTE ANTI - DEFLATION PROGRAMS
AND BEWARE OF DEFLATION

To proceed merely on the basis of restricting the bankers' creation of money is to invite deflation, depression and repudiation of the reforms. *This is a real danger since financial elements that would benefit from deflation would promote reforms with such "unintended" consequences.* For three decades the fear of inflation has been drilled into the American mind and the political climate is still vulnerable to an over reaction to inflation phobia. Thus Fed Chairman Greenspan was praised for raising interest rates 11 times in the late 1990s in fear of an imaginary inflation!

**Therefore limitations on the bankers' power to create money must not only be accompanied by clearly defined powers for the government to take their place, but also specific programs requiring money creation, for example to re-build infrastructure throughout the land in a major way. Paying for Social Security and a national health care system through government money creation would also serve to avert a deflation.**

Are we advocating inflation? Certainly not. We like Henry George's answer on whether he'd support the government issuing money *too freely*: **"('ecclesiastical expletive!') I am a Greenbacker, but I am not a fool."**[15]

*24d.*
**Robert de Fremery (1916 - 2,000) kept the concept of the "100% Reserve Solution" alive to the present day, through his books and articles and personal correspondence with prominent economists. He was also an important supporter of the Henry George school of land taxation.**



THE USURY PROBLEM REMAINS

Chapters 7 and 13 showed the problems of usury and interest are far from settled. Whipple's calculation (see p. 346) demonstrated the impossibility of long term interest, even at moderate rates, even where the lender did not create the money, but loaned money he already owned.

While it's outside the scope of this book to resolve all elements of this complex question, nationalizing the money creation process is a precondition to solving the usury problem and its wealth concentration effect. Continuing historical research and logical documentation would be helpful. For example applying serious computer models to this question could provide valuable information on how quickly usury concentrates wealth to insupportable, society busting levels.

Some steps could be taken immediately: nationalize money creation in government hands, where it can be created debt free, or at least interest free as described above. There should be an immediate national legal limit of 8% annual interest, including credit cards, with no offshore loopholes. No interest should be paid on checking accounts. Cumulative interest should never be allowed to exceed the amount loaned. Some of these restrictions were in effect in the early 1980s, before the mad paper chase took over our economy in its present form.

**Regarding the international debt problem, Pope John Paul II, is the best economist. His call for a "Jubilee" to forgive much of the debt - to write it off - makes much more sense than most of them do.**

FINANCIERS WILL TRY TO SABOTAGE REFORM

Once meaningful monetary reforms are underway in America, we shouldn't be surprised if bankers and financiers attempt to derail the reforms through economic disruptions, including bringing the economy to a halt. They might spark foreign and domestic crises and violence. Therefore the reforms must make substantial provision for this by creatively giving such types enough other things to worry about so that they have little time to attack the reforms. This shouldn't be too difficult, considering that reform would most likely proceed after another orgy of banking induced disasters, rife with felonious activity.

Readers who feel the author has been too harsh on the bankers should remember that even Jesus Christ felt compelled to use violence against them, and them alone.

DON'T ALLOW ECONOMISTS TO DIRECT MONETARY REFORM

Monetary reform must not be left in the hands of economists. Such reform is a legal, moral and political matter more than an economic one. Economists have no training in those areas and generally disdain such matters. Their indoctrination leads them to erroneously assume that the market process best resolves such questions.

In Chapter 12 we likened the political economists to a Temple priesthood, trained to uphold the Temple ways. They have endured so much mental pressure in their formative years in order to obtain their PHD seal of approval from their predecessors that it's not realistic to expect or count on them to break free of such thought patterns.

What role should economists play? Where exceptional individuals have achieved an independence of mind, they can best contribute to the reform process by evaluating technical matters connected with reform, not the legal, moral or political questions regarding the main structures reform should take. They can thus neutralize the destructive economists.

OBSTACLES TO MONETARY REFORM

The four main obstacles we must overcome are:

**1. The banking and media establishments**

The financial power of the bankers, related financiers, and their lobbying power in the U.S. Congress is a formidable obstacle. The dependence and interlocking of the banks with the major media and universities means that except for accidents, the message for meaningful monetary reform will not likely reach the citizenry through major television and radio stations, major newspapers and magazines, or Hollywood films. Thus this book was first printed in German, by a Swiss publisher.

Enacting meaningful reform in America will require using alternative methods of communication. It's critical to develop strong person-to-person relations on a grass roots level, that can be expanded to larger and larger groups. Another key will be to educate and gain the support of existing groups - to interest them in monetary reform. Documentary film makers able to work closely with monetary researchers also need to be attracted to the cause of monetary reform.

**2. Poor monetary and economic thought**

Much inane monetary thinking arises from the Austrian School of Economics, which has more influence in America than in Europe, thanks to its hold on American Libertarians. The monetary positions of this school are weak right from its founder Carl Menger's theory of the origin of money. Their main monetary tract was written in 1912 by Ludwig Von Mises at only age 31. Yet re-printings have almost no changes, despite the momentous monetary events that occurred since then! This reveals a kind of arrogance to beware of. Von Mises' rarely read book has many contradictions and bold unsupported assertions on its key monetary positions, for example his assertion that:

"The concept of money as a creature of law and the State is clearly untenable. It is not justified by a single phenomenon of the market."[16]

Why? No answer. That single statement brands him as either dishonest or foolish. It is clear from history that money is a creature of the law and the state. We have documented case histories that prove him wrong, in many of our chapters.

**The Austrian School - "A leap backward"**

The method of Von Mises and the Austrians is either a form of shouting as in the above example, or it is theoretical, a'priori reasoning. This use of deduction rather than observation, and their tendency to ignore the scientific method, caused the Austrian School to be labeled "a leap backwards" in economic thought by Edward C. Harwood, founder of the American Institute for Economic Research (AIER) in Great Barrington, Massachusetts:

"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."[17]

The ongoing work of the AIER should not discard Harwood's acute observations on this matter.[C]

It should be mentioned that among the Austrian economists, the author truly admires Professor Murray Rothbard's clear and unequivocal condemnation of fractional reserve banking as a "Ponzi scheme." Von Mises criticized it less forcefully; but most Austrians support it in the name of free markets. Rothbard understood that free markets stop where fraud and privilege begin.

We don't mean to only single out the Austrians. Similar charges apply to other "schools" as well. As a "science," economics is very ill.

**3. Ayn Rand and the Libertarian free market theology**

The anti-governmental aspect of most economists is the problem, and ultimately their main thrust. For decades in America, as part of a free market theology, they have attacked the one organizational form with the potential to stand up against the Plutocracy on behalf of the people - our government. The Libertarians didn't invent this idea. Adam Smith originated its present form, largely for the purpose of keeping the money power in private hands, as seen in Chapter 12. The Libertarians are merely the latest group to be captured by this ideology and to be convinced that they represent something new, rather than an old plutocratic viewpoint.

Their idol, Ayn Rand, the 20th Century's greatest proponent of capitalism, was actually born in Russia as Alissa Rosenbaum. She renamed herself after the brand name of her typewriter. Rand was so partial to deductive reasoning as to be easily taken in by the conservative economic line. Her monetary error of regarding money as a commodity, particularly gold, is evident in the cocktail party speech by the colorful (and your author's favorite of her characters) Francisco D'Anconia in her novel *Atlas Shrugged.*[18]

While it's only a novel, many of her followers treat it more like a textbook or the "Gospel" and distribute an excerpt of that speech on money. Her works transmitted this falsehood to the Libertarian political party, which formed among her readers (without her blessing). But novels are a medium that neither demands proof nor exposes the author to

[C] The author served as a Trustee and Executive Committee member of the American Institute for Economic Research (AIER) in 1976, in a successful effort to help the Institute resolve its problems with the Securities & Exchange Commission.)

serious scrutiny or dispute by those with real knowledge in the field.

Answering critics who said people like Ayn Rand's heroic characters don't really exist, she replied that the proof of their existence was her novels. That answer raised the initial red warning flag regarding methodological problems in her thinking.

One problem with merely applying reason and logic to complex life situations is that no matter how precise one's logic is, if it is applied to poorly defined concepts, the result will be tenuous at best. For example, applying good logic, while utilizing a faulty definition of money will produce a confused result where the outcome will be determined by the dominant media of the dominant financial group: i.e. by power. That outcome will support the existing financial order. That has unfortunately been Ayn Rand's legacy. Her protégé, Alan Greenspan, has been chairman of the Federal Reserve since 1987.

**Nietzsche provided Rand's power**

Your author had read all of Ayn Rand before reading Nietzsche; but after reading him, it was clear that what was powerful and of value in Rand had its source in Nietzsche. Her mentioning him only once (and in a somewhat negative way) was not a sufficient acknowledgment of the great debt that she owed him. Ayn Rand took the powerful ***form*** provided by Nietzsche, and filled it with the inane ***content*** of Adam Smith. In part she turned Nietzsche's idea of the Superman (mans potential for continuing heroic development) into a type of shopkeeper's mentality.

But contrary to Rand, Friedrich Nietzsche's advice to his better people was to: ***"Get thee from the market place!"***

**The anti-social nature of current thinking**

Rand's very strength of mind and egoism also led to errors in her view of society. It is wonderful to have a confidence and certainty of mind. The problem arises when the personality insists it can exhibit this certainty in areas about which it is not sufficiently informed. This type of personality is highly vulnerable to flattery and often demands adulation or obedience, well known features of her personal makeup.

By over-accentuating man's faculty of deductive reasoning, she consequently devalued the importance of his experience and of society. For reason is normally an individual process and experience almost always takes place within a social context. In her refreshing glorification of the individual, Rand unnecessarily stretched it too far and downplayed that even reason takes place within the concepts and ideas of our predecessors, relayed to us through society. For example, Newton said that he saw so far because he was "standing on the shoulders of giants."

That process only occurs in a social context, where knowledge can be recorded and passed down. In any case, mankind only exists within societies. Nowhere does man exist just as an individual. Ayn Rand didn't deny this, but the Libertarians are still struggling with the real-world implications of that fact.

**The facts call for an attitude adjustment**

To effect meaningful reform, a change in attitude is needed, to recognize the proper relation of the individual to society. No doubt some readers wince at the thought of instituting the monetary power in our government. The reason is that ***for over two centuries, a poisoning of our attitude toward government has been underway. The stealthy promotion of this self-destructive childishness must stop.***

Significantly, such anti-government propaganda was intimately connected with monetary proposals. As described in earlier chapters, your author found it first in Adam Smith's 1776 book and later in cruder attempts like Walter Bagehot's 1869 proposal for a union of American and British currencies. Even crackpots like Oxford's Bonamy Price were sent on tour to attack our government and befuddle American minds.

The great social/governmental/political task of our time is to define the proper evolving relationship of man to society as a whole, and the responsibilities and rights that individuals must have to live as men and function optimally. This moral system needs to be specified optimally, not just in terms of society, but ultimately in terms of humanity.

The jealous and vengeful thunder God of the Old Testament is not capable of supplying any such morality for the modern world, and the gentle teachings of Jesus have proved much too easy to corrupt by those only seeking advantage. One approach would be to isolate the best elements of various traditions and leave behind the trash, to separate the wheat from the chaff.

But instead of helping to shape and define that relationship, Ayn Rand's delinquent children - the Libertarians - are acting like spoiled brats, with some of their leaders going so far as to assert there's no need for any government.[19] The kind of personal freedom being advocated has a hollowness to it reminiscent of the "freedoms" that the oriental cults promoted as they swept into Rome from the 3rd century BC, discussed in Chapter 2. It appears to be having a similar effect to that described by James Frazer in *The Golden Bough*:

"The (result) was to withdraw the devotee more and more from the public service…displacing the old ideal of the patriot and the hero who, forgetful of self, lives and is ready to die for the good of his country…A general disintegration of the body politic set in…the structure of society tended to resolve itself into its individual elements and thereby to relapse into barbarism, for civilization is only possible through the active co-operation of the citizens and their willingness to subordinate their private interests to the common good."[20]

Similarly, while the Libertarian ideology gets people focused on the individual, then certain already existing financial and religious organizational structures can dominate by default.

The Libertarians cast off the jealous thunder God of the Old Testament, and ignored Jesus and Mohammed. But they got suckered into accepting the existence of ghosts created by those whose purpose it was to monetarily rule societies. Their ghosts go under the name of "invisible hands" supposedly exerted by the market.

As described by his High Priest Adam Smith, *"Hand the Invisible"* promises that so long as society bows to neo-feudal elements in control of the money system, *Hand* will appropriately distribute the economy's rewards and punishments. To Adam Smith and the modern laissez-faire advocates, the "Market" thus displays omniscience, omnipotence, and benign goodness, the three essential attributes of a Deity.[21]

They pretend the "market" offers a valid, workable "morality" for the guidance of society. But only people who have not seen the inner workings of markets would entertain such a foolish idea. In effect they have simply done away with morality and consciously substituted "the bottom line." This is much more than an accounting problem. It is deeply embedded in the so-called science of economics.

For in reality the only invisible hand is the one picking everyone's pocket and transferring the contents to those abusing the monetary and economic system! It's long past time to reform them out of existence, but it's not too late.

**4. Dangers to civil liberty from the "War on terrorism"**

A precondition for monetary reform is that we keep our political freedoms intact. Unfortunately, the destruction of the World Trade Center in a context of Christian, Jewish and Moslem "fundamentalism" has placed our Constitutional Republic and Bill of Rights in more jeopardy than at any time since WWII.

Watching what we venerated as a magnificent permanence in New York's skyline collapse into rubble was a traumatic experience. In the aftermath, necessity called upon us to vigorously defend ourselves and to honestly examine, and correct where possible, the root causes of the trouble. Understandably the defense came first. Now it is time to do the evaluations and to rationalize our Middle Eastern policy.

Fundamentalist elements in Israel, America and the Moslem world want this crisis to degenerate into a war of the West vs. Islam. Thanks to our nuclear arsenal, the West would "win" such a war. Hundreds of millions of Moslems would die. *But America would also be destroyed in the process*, and not just from the millions dying in unstoppable biological attacks, and the occasional nuclear briefcase, *from whatever source*, that slipped through.

Consider how quickly our Constitutional Republic would permanently be changed into a type of police state in futile attempts to stop "terrorism." We'd still have Mickey Mouse and Donald Duck, and President Whomever, but our cherished rights, for which our forefathers fought and died, would be gone forever. The protection of those rights for ourselves and our posterity, not Middle-Eastern land politics, must be our paramount concern.

Even as they took military steps to eradicate organized fundamentalist networks committed to terroristic activity against the U.S., President Bush and Secretary of State Powell also announced their intent to support formation of a Palestinian state, and to end the decades of occupation of Palestine by Israel. These were courageous moves in the right direction.

Then the Enron Corporation collapsed in scandal, with the potential (depending on media coverage) to destroy the present Administration. Bush and Powell's initiative quickly faded with the next reprisal attack on Israel, in its back and forth dance of death with the Palestinians.

Since it is generally "forbidden" in the American media for non-Jews to criticize Israel, history and events have thus combined to place a special responsibility upon Jewish Americans to promote a reasonable American policy in the Middle East. While that requires much courage, we hope significant numbers can rise to the challenge, as did soldiers in Israel's army who refused to serve in the occupied territories. Like it or not, American Jews may have been dealt a difficult but conspicuous and decisive hand to play. However, time grows short, and if Jewish Americans don't move decisively on this question, then reasonable people will have to demand it.

WHAT CAN BE DONE NOW?

Assuming that we are not sliding down a slippery slope into despotism, if we are to succeed with monetary reform it will require that a lot more

Americans understand both the historical background and the essentials needed for a just money system. Only in that way will political action be directed toward intelligent goals. That's the purpose of this book and hopefully you are motivated to act and to learn more. Please read it again, and encourage others to obtain a copy, as that will help support AMI's continuing research. If you have questions, email us at: ami@taconic.net or write us at P.O. Box 601, Valatie, NY, 12184, and the American Monetary Institute will address the questions.

The measures needed for reform must be accurately and simply distilled into the form of proposed non-partisan legislation as a focal point for political action. This will require the assistance of trained legal and political minds, and as progress is made it will be posted at AMI's web site (http://www.monetary.org).

Democratic, Republican and Independent sponsors must be found and motivated to introduce such legislation. Widespread political support is possible because of the highly positive effects a just money system would have on almost everyone - what could become "The Next Big Thing." The millions of Americans presently working for social justice and environmental concerns are natural supporters of such legislation, as well as researchers and teachers. Americans concerned with our eroding rights and freedoms at the hands of growing plutocracy are also natural supporters; for we would reinstate one function to government - the money power - and be able to start removing hundreds of functions, made unnecessary by this reform.

We have no illusions about the difficulty involved in wresting away a power that special interests have held entrenched for more than a century. But neither are we pessimistic. The reform becomes politically achievable each time the financiers run the world's economies into the wall. If at such a time, the legislation is among the bills introduced in Congress, and solid, thoughtful public support exists for it, it has a chance.

This underlines the importance of not compromising the legislation in order to make it palatable to special interests. Their view won't matter, at its most likely time for passage. No one will care what the Fed or the economists who supported their system have to say at that point.

THE NEXT BIG THING?

The exciting advances in Internet technologies and in the biomedical fields (and soon in nano-technology), have spurred the question, "What's the next big thing"? Usually the motive of the question is to identify some investment opportunity. But what might be the next big thing transcends such personal considerations. The reader will see that, by using the monetary concepts presented here, society has far more power to solve its long and short range problems than the prevailing attitudes toward government would indicate. In fact it's now possible to go beyond mere problem solving and into the beginnings of "utopia" creation.

As long as there are unused resources available, such as unemployed and under-employed people, or unused plant and equipment and natural resources, and there are needs to be filled, society has the monetary power to employ those factors without resorting to taxation or borrowing. Since we have seen that private banks can't or won't do it, the money to finance such development can be carefully created by government within specific constitutional guidelines. The availability of the new goods and services produced means that inflation need not result. The new wealth and economic activity and connected taxes generated are great bonuses from such productive efforts.

Some short-sighted economists will crow that "there is no free lunch," and think they have knocked down these concepts (but if there's no free lunch, then why haven't these fellows starved to death long ago?) What they really seem to hate is watching society accomplish good things and solve problems. They want to limit such decisions and activity only to corporations, and the elites that rule them. That means the kind of problems that only society can solve will grow until they lead to warfare.

*The real sources of the productivity are the work and thought and tools and natural resources, and our inherited knowledge and experience, all existing within a supportive social and legal framework. Money is just the indispensable lubricant that facilitates their employment.* If there are not sufficient numbers of skilled people, society can direct its monetary power to improving our educational system and funding new schools of all types. People might also better understand the negative role the media has been exercising in generally glorifying or playing to ignorance and promoting drug use. They might question whether that is accidental, really just for the sake of profit, or much worse.

Other purposes to which the monetary power can lend a hand are obvious: medical research to remove the scourge of cancer and other diseases; automotive research to double or quadruple the efficiency of automobiles; or develop better, pollution free technologies. Energy and waste management research will allow us to stop fouling our planet. And yes, a missile defense shield, and other programs that keep our defenses strong in the present dangerous world. To reduce those dangers, it wouldn't hurt if we would increase our efforts to help and teach other peoples how to raise themselves out of poverty.

***Readers now know that "we can't afford it" is just an excuse.***

We already have the knowledge and productive capability to at least begin the creation of a near utopian existence on earth. What stands in the way are mainly pernicious monetary, banking, and some "religious" attitudes. Hopefully this book has provided enough of the monetary background and solutions to help start us moving toward a brighter future.

Stephen A. Zarlenga
Oak Street Beach, Chicago,
Labor Day, 2002.

*Epilogue*

If you are interested in these monetary themes on either a theoretical or practical level, you are invited to keep in touch with the Institute, and if possible to become a sustaining member (see overleaf). We'll keep all informed of developments with regular updates through e mail, and regular mail for those not online.

No one knows just how the future will unfold, but we know that monetary reform is crucially needed in America, and as long as we are able to take meaningful steps to that end, we will. Our primary contribution will continue to be in the area of monetary research and education. We also have a responsibility to help implement the ideas discovered there. That is fully consistent with our charter, and with the political action limitations that 501(c)3 rules place on charitable trusts. Our stated mission is *"to advance the independent study of monetary history, theory and reform, and to present the results in a way that's understandable by the average citizen, so that it can lead to monetary reforms that assure a greater level of economic justice in society and a more efficient and equitable functioning of government."*

## *Notes to Chapter 24*

[1] Alexander Del Mar, *History of Monetary Systems*, (repr., New York: A.M. Kelley, 1969), p. 467.

[2] Natl. Conf. of Catholic Bishop's Pastoral Letter, *Economic Justice for All*, 1995.

[3] A year 2,000 estimate by a Chicago Federal Reserve Bank economist. Earlier figures of a $300 billion loss were reduced as many properties became salable.

[4] Alexander Del Mar, *Money in Ancient Countries*, (London: Bell, 1885), p. 2

[5] Max Weber, *The Protestant Ethic and the Spirit of Capitalism*, transl. Parsons, (New York: Scribners, 1958), p. 182.

[6]See Stephen Zarlenga, *Henry George's Concept of Money*, Schalkenbach Foundation, quoting Henry George's *Social Problems*, p. 168.

[7] Robert de Fremery, *Rights vs Privileges*, (Provocative Press, 1992), pp. 54-5.

[8] Frederick Soddy, *Money Versus Man*, (New York: Dutton, 1933, pp. 32, 45-6.

[9] de Fremery, cited above, p. 76.

[10] Ludwig Von Mises, *Human Action*, (Yale Univ. Press, 1949), pp.560-80.

[11] de Fremery, cited above, p. 50.

[12] Henry C. Simon, *Economic Policy for a Free Society*, (Univ. of Chicago Press, 1948).

[13] Oral history, drawn from conversations with Robert de Fremery.

[14] de Fremery, cited above, p. 125.

[15]Louis F. Post; The Prophet of San Francisco; (New York: Vanguard, 1930), p. 128. Post does not tell us what the "expletive" was!

[16] Ludwig Von Mises, *Theory of Money and Credit*, (Capetown: J. Cape, 1934), p. 69.

[17] E.C. Harwood, *Useful Principles of Inquiry*, (Great Barrington, Mass., Behavioural Research Council, 1973), p. 211

[18] Ayn Rand, *Atlas Shrugged*, (New York: New American Library, 1957), pp. 387-91.

[19] My old friend Doug Casey, Co-Chairman of the Libertarian Party's 1996 Presidential race, said this in a speech posted on the Internet at that time. C'mon Doug!

[20] James G. Fraser, *The Golden Bough*, (Macmillan, 1952), pp. 414-5.

[21] Gernot Kohler pointed this out on the William Vickrey Memorial Website at: http://pw2.netcom.com/~masonc/vickrey.html#KOHLERT

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Robert De Fremery's *Rights vs Privileges* (paperback, 125 pp.) . . . . . " $15

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The American Monetary Institute ("AMI") is a publicly supported charitable trust dedicated to the *independent* study of monetary history, theory, and reform. To maintain that independence our funding must come from a number of diverse sources and our research has to be available to a wide audience. This book has presented the results of that research to date.

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We invite you to join and become more personally acquainted with the AMI and these important monetary concepts. We also welcome your participation in the coming efforts to achieve monetary reform. If that can be accomplished in America, then it will become much easier to begin resolving international monetary problems as well.

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Abbreviations used: Nyplpc. - *New York Public Library Photo Collection;* art. - *artist;* phot. - *photographer;* n.n. - *not named;* unk. - *unknown.*


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Items with a star * are referenced in the book. Items with a † are especially recommended, and items with a ‡ were of direct importance in developing elements of the thesis. Some unusual materials are identified by their call letters at the NY Research Library. The abbreviation NY is used below to denote New York City. For a bibliography organized by subject matter, please see the works listed in the endnotes after each Chapter.


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