



Henry George left unfinished Book V of *The Science of Political Economy*, on Money. However, a substantial portion of his approach to the subject was already outlined. Although he did not consider money of fundamental importance in the production and distribution of wealth, he did consider it important enough to devote the last book of *Science* to it.

In the Georgist analysis, money is regarded as a medium of exchange and a measure of value. In many other analyses, a great deal more is ascribed to money, the supply of money, and monetary systems, which are often supposed to be able to organize economic society. Current analysis of the money supply includes M₁, (transactions money) — the sum of currency and checking accounts used in transactions — and M₂ (broad money) — which includes M₁, plus “asset money” such as savings accounts, money market accounts, etc. But economists are in disagreement as to the significance of the money supply as well as other aspects. In a Cambridge handbook on *Money*, D. H. Robertson says: “The real economic evil of society — inadequate production and inequitable distribution — lie too deep for any purely monetary ointment to cure.” It was with this “deep” analysis that Henry George was primarily concerned.

George, however, did see the desirability of a stable monetary system that would avoid the excesses of the French *assignat* and the US continental (briefly mentioned on page 525 of *Science*) — and, we might add, the inflation of the German mark in the 1920s. Although he did not promote it vigorously, in his earlier days he suggested a method of having a stable currency, as outlined by Louis F. Post, in his book on George entitled *The Prophet of San Francisco*:

Henry George favored a paper currency issued by the Federal Government in sufficient volume to serve all the legitimate purposes of commercial distribution, yet well enough regulated as to volume to prevent excessive expansion or contraction. The particular plan George advocated required issues of interest-bearing bonds to be sold on call and redeemed on demand at any post office — redemptions to be made with non-interest-bearing currency. Thus the people could receive interest upon their savings by purchasing bonds with currency, which would check any tendency to excess in currency volume. On the other hand, any deficiency in currency volume would be checked by exchange of interest-bearing bonds for non-interest-bearing currency.

Thus George tended toward a credit currency with safeguards. Somewhat related to this idea is that of Milton Friedman and the “monetarists”

who have proposed that money be freed entirely from gold backing; that gold be allowed to circulate freely in the market; and that the government issue money on a “fiat” basis but in accordance with a formula so as to avoid inflation — viz., a regular annual increase in the supply of money in accordance with the anticipated increase of the gross national product. A Georgist critique of monetarism would be that it places too much emphasis on the supply of money as a determining factor in the performance of the economy.

The idea that money should be backed by precious metals, especially gold — the gold standard — continues to have appeal, although gold has been progressively “dethroned” in currency systems. The basic argument for gold is that it has stood the test of time as the most desirable, stable measure and store of value. Criticisms of the gold standard are, that while gold is a good store of value, it is a poor medium of exchange, in accordance with Gresham’s law that bad money drives out good, and that it does fluctuate in value. Also, it may be noted that gold has its greatest appeal in times and places at which the economy is least stable. Thus while it appeals to individuals, the important task for society is to create stability.

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Among various proposed reforms, that of demurrage currency might be mentioned. Silvio Gesell (who also proposed a land reform similar to that of Henry George, but more complicated) proposed a “demurrage currency,” that is, one which would become less valuable as time went on. The plan would be to require the affixing of a special tax stamp on a bill at regular monthly intervals. The purpose is to discourage the holding of money and to encourage spending. This is outlined in Gesell’s book, *The Natural Economic Order*.

Another proposal is to decentralize banking, with less control by the central bank (in the US, the Federal Reserve Board) — also to permit private banking and even the private issuance of money.

Monetary policy is an area where those who agree with basic Georgist principles may have diverse views. It is also conceivable that societies which adopt the basic Georgist reform (the single tax on land values) may have differing monetary systems. The desirable quality in a monetary system is the availability of a reliable, fairly stable and adequate supply of a circulating medium. If this can be attained, and if the society is economically sound, money need not be expected to perform all sorts of economic miracles. **GD**

(This text is taken from the supplemental readings for the HGI’s course in Economic Science. — L.D.)