

# Henry George's Concept of Money and Its Application to 21<sup>st</sup> Century Monetary Reform

by Steven Zarlenga

Reading *Progress and Poverty* I found strong indications that Henry George held an advanced view of money. One line stood out:

*The laborer who receives his wages in money (coined or printed it may be) really receives in return for the addition his labour has made to the general stock of wealth, a draft on that general stock, which he may utilize... and that neither the money, which is but the draft, nor the particular form of wealth which he uses it to call for, represents advances of capital for his maintenance.... (P&P, 29)*

This distinction between wealth and money is usually the first key step on the road to monetary awareness. It's not an obvious step. It requires abandoning a more comfortable view of money as a tangible physical thing, and coming to understand money as an abstract social power embedded in law. For example, those insisting on gold backing for "money" have not yet taken this step. George identifies the modern source of this problem:

*That this universal truth is so often obscured, is largely due to that fruitful source of economic obscurity, the confounding of wealth with money...since Dr. Adam Smith made the egg stand on its head.... (P&P, 62)*

The regression to metallism in the 19th and 20th centuries is traceable back to Adam Smith's monetary errors. The Greenbackers of the mid-1800s, including Henry George, overcame this. But "hard money" advocates have regressed to Adam Smith's primitive notions.

Compared to Smith, Marx, Von Mises, and Keynes, George was a highly accurate writer on money. There were two main reasons for that: George's methodology and his orientation.

Methodologically, George used logic and deduction in what he called "mental experiments". The problem with that method, however, is that the tiniest error gets magnified, the further one gets from the initial definitions and assumptions. It is like firing a long-range rifle: the smallest deviation at the rifle sight gets magnified the further the bullet goes. George controlled this problem through a healthy respect for the facts: "Bring it to a test of the Facts," he wrote, and "To the supreme and final test of facts we can easily bring this theory." (P&P, 140) The phrase "supreme and final test" is very telling. If the facts contradict theory, the theory falls.

In terms of orientation, George was a humanist, and a seeker of justice. He saw humankind on a path of progress and he used two core principles

**B**ecause there are three essential factors of modern production, land, labor and capital, control of any one of these factors gives the controllers power over the distribution of wealth. It should be no surprise, therefore, that there are three basic forms of slavery.

Direct monopolization of labor, or chattel slavery, has been abolished. That leaves land monopoly and control of capital through currency, or banking, monopoly.

For centuries, land and currency monopolies have been the targets of the most fundamental reformers. Unfortunately, land reformers and money reformers have fallen into two different camps, with each failing to appreciate the importance of the other's agenda.

Monetary reformer Stephen Zarlenga has tied these issues together. He has not only researched the monetary views of great land reformers such as Henry George, but has clearly detailed the processes by which banks control and usurp the natural return to capital, just as landlords control and usurp the natural return to land.

Just as Henry George had cut through the intrigues of landlordism by going straight to the principles of equitable land tenure, so does Zarlenga cut through the intrigues of banking by going straight to the principles of an equitable currency system. His ideas give a clear vision of how money should be issued, how land and money issues interlock, and how land reformers and money reformers can work together to free humanity. — Dan Sullivan, introducing Steven Zarlenga at the London conference.

to evaluate that path: equal rights and self-determination. Yet progress is his great value, defined this way:

“Association in equality is the law of progress. Association frees mental power for expenditure in improvement...” (*P&P*, 508). Thus the Georgist movement's wide appeal was not so much about economics as it was a great moral crusade for economic justice.

George made excellent monetary distinctions. Over decades his monetary views were consistently accurate. First, as we have discussed, he distinguished between money and wealth.

Second, George distinguished between money and credit. He understood how credit could function as money: “...the great volume of domestic exchange is carried on by the giving and cancellation of

credits...” But unlike the bankers and most economists, George forcefully distinguished credit from money:

*“...though (Credit) may be made into money, it is not itself money...a real and very important distinction — the distinction between money and credit. ...checks, drafts, negotiable notes and other transferable obligations...[pass for money] only when accompanied by...trust or credit... Thus there is a quality attaching to money...which clearly distinguishes it from all forms of credit.”* (*SPE*, 491-3)

George realized that money is on a higher order than credit, for it is unconditionally accepted as payment:

“The curse of credit as a flux of exchanges is that it expands when there is a tendency to speculation, and sharply contracts just when most needed to assure confidence...”(St 2/11/88)

Third, he distinguished between *privately-created credit* used in place of money for private profit, and government, or *publicly-created* money for the common good. Writing on money and government in *Social Problems* (1884), he displayed an advanced concept of how a money system should operate:

*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. These obvious considerations have everywhere... led to the recognition of the coinage of money as an exclusive function of government.*

*...The evils entailed by wildcat banking in the United States are too well remembered to need reference. The loss and inconvenience, the swindling and corruption that flowed from this...ended with the war, and no-one would now go back to them.*

*Yet instead of doing what every public consideration impels us to, and assuming...as the exclusive function of the General Government the power to issue money, the private interests of bankers have, up to [now], compelled us to the use of a hybrid currency...” (SP, 178-9)*

George repeated this in *The Standard* in 1888, focusing on how the fractional reserve banking system gave the bankers special privileges.

Why did George understand the nature of money so much better than most economists? Because the private money creation process is so clearly immoral. It is not rocket science. It requires access to enough of the historical facts, and independence of mind to evaluate the facts within a structure of fairness. The question seems more complex now, because students and economists don't have the facts, or the moral approach, and because a lot of money and energy have gone into whitewashing the existing money system, to keep it from being identified as theft and fraud. George didn't allow economists to substitute a questionable utilitarianism

Steven Zarlenga's new book, *The Lost Science of Money*, is now available! Check it out at the website of the American Monetary Institute: [www.monetary.org](http://www.monetary.org)

for morality. A great enjoyment of reading George is he never let the forms of economic oppression hide behind obtuse theories. He openly identified them as slavery, stripping away the veneer of academic respectability from those serving injustice:

*Even the intellectually courageous have shrunk from laying stress upon principles which might threaten great vested interests; while others...have exercised their ingenuity in eliminating from the science everything which could offend those interests. ...a science which...seems but to justify injustice, to canonize selfishness by throwing around it the halo of utility.... (Study of Political Economy Lecture p. 6).*

Thus George destroys utilitarianism in one sentence. Why is this attitude toward economics so important? Because much of that science has a strong class warfare element deeply embedded in it.

This warfare has spawned a 250-year attack on government. Every day we see examples of how this disease has reached epidemic proportions. It has spread from Hayek and Ayn Rand to their intellectual heir Rush Limbaugh and his propaganda radio.

This attack on government originated largely in Adam Smith — the arch-enemy of government exercising its proper monetary role in issuing currency. Smith glorified the private Bank of England with high praise — and by rhetorically downplaying its failures, he attacked government-issued money.

George offers a cure for this anti-government malaise, especially in *Social Problems*, and *The Standard*. Some brief excerpts:

On The Purpose of Government he wrote:

*As society develops... it becomes necessary for government, which is properly that social organ by which alone the whole body of individuals can act, to take upon itself... certain functions which cannot safely be left to individuals..." (SP, 177)*

On The Problem of Corruption:

*[Corruption] is no reason why we should shrink from political action, for it is only through political action that we can improve conditions which produce corruption. (Standard, Jan 7 1888)*

On The Abuse of Government:

*But beneath everything...there lies as the vital danger to the Republic, the increasing inequality in the distribution of wealth....but consider what is the cause?...the power of government has been deliberately and continuously prostituted to make the rich richer and the poor poorer. (Standard, Sept 14, 1889)*

A Forgotten Principle of Government:

*Any considerable interest having necessary relations with government is more corruptive of government when acting upon government from without than*

when assumed by government....

On Government Efficiency:

*In regard to public affairs we too easily accept the dictum that faithful and efficient work can be secured only by the hopes of...profit, or the fear of...loss. (SP, 185-6)*

(Interestingly, it was a government job as a state inspector of gas meters that allowed George to write *Progress and Poverty* in the first place.)

The attack on government is serious enough, but it becomes really obnoxious when combined with an attack on humanity, as seen in Adam Smith's "selfishness error". Following Buckle's lead, George identified the false axiom on which Smith's *Wealth of Nations* is based:

*Buckle's understanding of Political Economy was that it eliminated every other feeling than selfishness." Wherein Smith 'generalizes the laws of wealth, not from the phenomena of wealth, nor from statistical statements, but from the phenomena of selfishness; thus making a deductive application of one set of mental principles to the whole set of economical facts. He everywhere assumes that the great moving power of all men, all interests and all classes, in all ages and in all countries is selfishness...indeed Adam Smith will hardly admit common humanity into his theory of motives.' (SPE, 89, 90)*

George substituted a different concept for Smith's destructive error: "The fundamental principle of human action ... is that men seek to gratify their desires with the least exertion." (P&P, 203) Then, taking a giant step, he poetically described the essence of humanity —

The "force of forces":

*Call it religion, patriotism, or the love of God — give it what name you will; there is yet a force which overcomes and drives out selfishness; a force which is the electricity of the moral universe; a force beside which all others are weak...I call this force destiny toward human nature — a higher, nobler nature than we generally manifest...And this force of forces — that now goes to waste or assumes perverted forms — we may use for the strengthening, and building up, and ennobling of society, if we but will..." (P&P, 463)*

George's ideas are highly relevant to American monetary reform. Let's look at the four major groupings advocating reform:

#### **The Gold Standard faction**

Composed largely of people involved in gold mining or coin investments, conservatives, and some fundamentalist religious folk, they have been unable to comprehend the abstract nature of money. Are all "stuck in the metaphor," to borrow Joseph Campbell's phrase. Succumbing to centuries of propaganda, they have confused money with wealth.

But History shows the so-called gold standard has been a shell game

and a tool of plutocracy. They get no sympathy from George, who wrote “we are digging ore out of holes in the ground in Nevada and California, refining it and poking it back into holes in the ground in New York and Washington.”

**The Free Banking faction** This movement was spawned by Hayek’s *Denationalization of Money* essay, which was mainly an attempt to throw a monkey wrench into the early plans for the Euro. It is mostly composed of Libertarians who mistake Ayn Rand novels for historical evidence. They make the historical claim that the old free banking period was not really all that bad.

They use poorly defined or undefined concepts, and have not even uniformly defined “free banking,” or money. I take it to mean that bankers would be allowed to create as much “money” as their clients will accept. But it’s really up to them to give their definitions. A few of the problems with them:

1) They have misread history. This is clear from George’s utter condemnation of free banking. They have mislabeled the “free banking” period as 1836 to 1864, when it was mainly prior to 1836. They make this huge mistake because the New York law in 1836 which imposed much greater legal restrictions on banking, was called a “Free Banking Law.” 2) They have disregarded the universal condemnations of free banking by expert witnesses of various persuasions, including Henry George. 3) They treat the banks statistically as if they were deposit institutions, but they were always banks of issue. 4) They totally ignore the stock fraud, mostly in bank shares, that always accompanied banking.

**Local Currency advocates** Henry George did help set up such a temporary system for his friend Tom Johnson’s company during a tight money period. But while local currency systems are well meaning and unharmed, they usually end quickly. It’s hard to make them work without the power of taxation. They don’t stop the continued dispensation of monetary injustice from above, through the privately owned and controlled Federal Reserve System. My main concern is that they tend to draw potential activists away from the real battle, that of reforming the Federal Reserve System.


**Reform of the Federal Reserve System** This — which is implied by George’s ideas — is the real solution, but also the tough one. Best to face it head on:

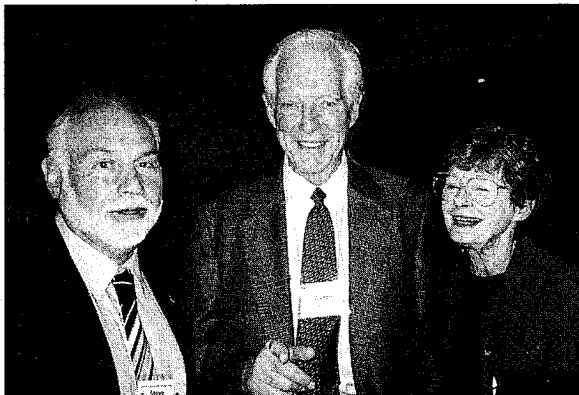
A) Nationalize the Fed, as the Bank of England was nationalized after World War II.

B) Institute the 100% Reserve Solution — which, (*continued on page 36*)

## Alberta's Citizen (Credit) Dividend...

(continued from page 35) Alberta's standard lease agreement and the province's political, regulatory and financial stability.

Albertans also generally accept and support the common ownership of the province's NRR. Unfortunately, though, most fail to recognize the parallel benefits of recovering the ER from the holders of the province's surface or renewable resources: "the land under their feet". It seems obvious however, that the combination of ER from both RR and NRR resources would bring all Albertans to the Georgist ideal. 




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## Henry George's View of Money...

(continued from page 31) as described in Robert De Fremery's "Rights vs. Privileges", amounts to a replacement of empty, debt-created money with sound, government-issued currency.

C) Institute mandatory monetary expansion rules, to avoid deflation.

D) Ultimately this becomes constituted as a fourth branch of government — a monetary branch. The nature of society requires four branches of government, not three.

From this point on, a true science of money, and then a much altered science of economics, will develop. We will have to learn much of that part, and society will use Aristotle's method: it will learn by doing. 



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