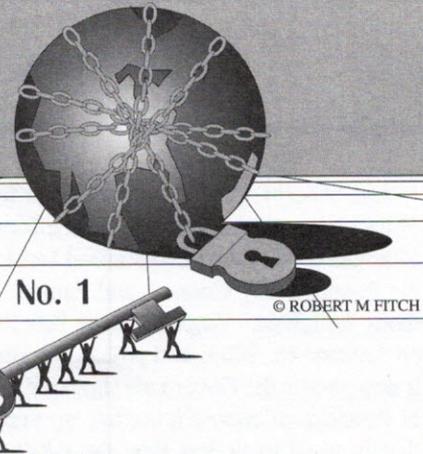


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## HENRY GEORGE AND MONETARY REFORM

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[The following presentation was made August 24, 2002 at the Council of Georgist Organizations conference in London, Ontario, Canada. Stephen Zarlenga is the Director of the American Monetary Institute, established in 1996, and has published 20 books on money and banking. In 12 years of research, he drew on over 800 monetary books for materials for data for his newly published book, "The Lost Science of Money" (see separate column in this GroundSwell issue.)]

Reading "Progress and Poverty" I found strong indications that Henry George, at age 40, 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 distinguishing 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 adopting a view of money as an abstract social power embedded in law. For example, those insisting on gold backing for "money" have not yet taken this step.

Why is this so important? Because all that is necessary to plutocratically undermine and eventually destroy society is for the monetary power to be in private hands; and the mechanism used to place that power into private hands has been to misdefine the nature of money.

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 back to Adam Smith's primitive notions.

Research graciously funded by Schalkenbach more than confirmed George's high monetary awareness especially in his book "Social Problems". Compared to Adam Smith, Karl Marx, Von Mises, and Keynes, George was a highly accurate writer on money.

### What led to that? - George's methodology and orientation!

George used logic and deduction in what he called "mental experiments":

"There is at our command a method... what may be called mental experiments. You may separate, combine or eliminate conditions in your own imagination, and test in this way the working of known principles."

But the problem with that method is that the tiniest error gets magnified, the further one gets from the initial definitions and assumptions. Like firing a long-range rifle - the smallest deviation at the rifle sight gets magnified the further the bullet goes.

George usually 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.

George's outlook was humanistic, and seeking justice. He saw Mankind on a path of Progress and he used two core principles 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..." "The law of human progress, what is it but the moral law?" (P&P, 508, 526)  
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Evil is that which acts to block such progress:

"To trace the force which stops progress, would go far to the solution of the problem of the genesis of evil"  
(P&P, 515)

To George, good or evil is not determined by an old thunder god, but by considerations of human justice.

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 he distinguished between money and wealth. While wealth is tangible, George repeatedly identified the abstract nature of money:

"It is important that this purely representative character of money should be thoroughly understood and constantly kept in mind, for from the confusion resulting from the confounding of money with wealth have flown the largest and most pernicious results." (Science of Political Economy, 493-4)

He observed that:

"These are not the effects of the confusion of a term. The confusion of the term is one of the effects of the influence upon thought of the same special interest..."  
(SPE, 141, 142)

To George it was self evident that such conspiracies against accurate thought were operating, and he felt that to eliminate such thought control required eliminating the financial source of the controller's power.

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. 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..." (Standard 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, at age 44, in Social Problems (1884), he had 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 chooses 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." (Social Problems, 178-9)

At age 46, he repeated that theme in "Protection or Free Trade", stating why government created currency is preferable to private bank currency:

"What can be clearer than that a note directly issued by the government is at least as good as a note based on a government bond?" (PFT, p. 12)

At age 48 George repeated this in the Standard in 1888, focusing on how the fractional reserve banking system gave the bankers special privileges. And the year before he died he wrote a newspaper article on the same lines.

### Why did George understand the nature of money better than most economists?

Because the private money creation process is so clearly immoral. It is not rocket science. It requires:

- 1) Access to enough of the historical facts;
- 2) Independence of mind and Honesty of purpose to evaluate the facts within a structure of fairness.

Also the Greenback movement, which grew out of our good experience with government greenbacks during the Civil War, had a literature and understanding of this concept in the 1860's through 1880's that is unknown today.

The question seems more (continued on page 12)

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complex now, because students and economists don't have the facts, or the moral approach, and because a lot of money and energy has 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 in place of 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..." Thus George destroys utilitarianism in one sentence. (Study of Political Economy Lecture p. 6)

And he tells us why economics has always been purposely corrupted:

"...a powerful class whose incomes could not fail to be endangered by a recognition... that what makes them... wealthy is... only robbery, must from the beginning... have beset (political economy's) primary step..." (SPE, 140; also see SPE: xxxviii; xxxix; 134, and 138)

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 spreading from Hayek and Ayn Rand to their intellectual heir Rush Limbaugh and his propaganda radio. It's not entertainment. The American Monetary Institute's research finds that this attack on government originated largely in Adam Smith - the arch-enemy of government issued money, in his efforts to keep government from 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.

Only once does Smith refer to the main question: why he

wants the central bank to be private and not publicly owned and controlled. But he didn't want to clearly frame the question so he obscured it as whether the English Government should be in the banking business for profit. He should have asked why the bank was trespassing in the government's sphere by issuing currency!

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

Smith's insulting the English Government marks the modern beginning of a relentless attack on society - the belittling and smearing of its organizational form—government. The single organization potentially able to block plutocracy's evil encroachments. (Evil, by George's definitions.) Smith also inadvertently illuminates the major purpose of this attack - to keep the money power in private hands.

### **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 develop(s)... 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..." (Soc. Pr., 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..." (Soc. Pr., 185-6) (continued on page 13)

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### 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."

Remember - 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 the attack on humanity, as seen in Adam Smith's selfishness "error". Following Buckles lead, George identified the false axiom on which Smith's Wealth of Nations is based:

"Buckles 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)

Consider the negative impact on humanity of Smith's selfishness assumption: Supporters of his doctrine argue that it is merely in harmony with human nature. 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 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 didn't stop it. Henry George saw exactly where it would lead:

"Nor can we abstract from man all but selfish qualities in order to make as the object of our thought... what has been called 'economic man', without getting what is really a monster, not a man." (SPE, 99)Ecco Homo—circa 2000!

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":

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

## 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 ruse 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." And if anything, George understated this problem with precious metals money.

### 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 as historical evidence! They are making 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. Some problems with them:

1) That they have misread history as 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 pre 1836. They make this huge mistake because the New York law (continued on page 14)

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in 1836 which imposed much greater legal restrictions on banking, was called a "Free Banking Law."

2) They have disregarded as "anecdotal," the universal condemnations of free banking by expert witnesses of various persuasions, including Henry George.

3) They use extremely poor, actually silly logic. For example they think they have logically "proved" that bankers will be honest, because in the long run it's good for business!

4) They treat the banks statistically as if they were deposit institutions, but they were always banks of issue.

5) They totally ignore the stock fraud, mostly in bank shares, that always accompanied banking, etc, etc.

### **The "L.E.T.S." groups**

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 L.E.T.S. are well meaning and not harmful, they usually end quickly. It's hard to make them work without the taxation power. 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 potential activists are being drawn away from the real battle, of reforming the Federal Reserve System, into futile side shows.

### **Reform of the Federal Reserve System - What George's Ideas Imply**

This 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 WW II.

B) Institute the 100% Reserve Solution (Not just 100% reserves!) It works like this:

(Please refer A.M.I. website, <http://www.monetary.org>, to Robert De Fremery's "Rights vs. Privileges" review, which goes into all the details.)

C) Institute mandatory monetary expansion rules, or there would be 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 emerge and develop. We still have to learn much of that part, and society will use Aristotle's method - it will learn by doing.

[This talk highlights Stephen Zarlenga's paper, completed in January 2001, which resulted from a Schalkenbach Foundation grant. Zarlenga has 35 years of experience in the world of finance, securities, insurance, mutual funds, real estate and futures trading. He holds a degree in psychology from the University of Chicago and has done graduate work at NYU. Zarlenga may be contacted at the American Monetary Institute, PO Box 601, Valatie, NY 12184. Tel. 518-392-5387, email [ami@taconic.net](mailto:ami@taconic.net), web

<http://www.monetary.org>] The full text of the Henry George paper can be viewed at

<http://www.monetary.org/henrygeorgeconceptofmoney>.