

# Henry George's Concept of Money: And Its Implications for 21st Century Reform

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Dedicated to the memory of Robert de Fremery (1916 – 2000)

Commissioned by the Robert Schalkenbach Foundation, Germany.

## Abbreviations and Notations

Citations are fully footnoted at the end of this paper. However, when the source is one of Henry George's primary works listed below it is generally identified at the end of the quotation. When appropriate, related or similar sources are also noted there as "also see" items. All italics and emphasis in quotations have been added. The following abbreviations are used:

**P&P** – *Progress And Poverty* (1880) – by Henry George, R. Schalkenbach Foundation, 1997.

**Soc Pr** – *Social Problems* (1884) – by Henry George, R. Schalkenbach Foundation, 1992.

**SPE** – *The Science Of Political Economy* (1898) – by Henry George, R. Schalkenbach Foundation, 1992.

**Standard** – Henry Georges weekly newspaper, *The Standard*.

## Preface and Synopsis:

Attesting to the importance of Henry George's life and work are his 5 million books in print; the active Henry George organizations and schools around the globe with thousands of supporters and uncountable others who still respond to his name with "Oh yes – the single tax". A man considered important enough to require the attention of one of the political establishment's most potent operators to derail his 1886 campaign for Mayor of New York City. George was influential enough to merit that Pope Leo XIII direct a section of a Papal encyclical at his work in 1891.

This kind of effect, I'd suggest, was not generated by the economic theorizing or theoretical observations of any individual or school, but has resulted from what was really a great moral crusade for economic justice.

To George, the land question was the key means to that end, and his name is rightfully associated with land tax reform - with the "single tax", described below. But although that was his main focus, there was a lot more to George than that. As Ken Wenzler pointed out "An important element of Georgism was reform of the banking and monetary system" That's the main focus of this paper.

My task has been to find and present George's monetary views, within the context of his own times and values; and to evaluate their relevance to present day questions. A task made more complex by the confusion and misinformation in which the monetary subject has traditionally

been shrouded. For this reason it was necessary to organize the paper into several steps. Step one describes George's major views and values; step two describes the real monetary context of his time, separating out the monetary myths. George's explicit monetary views are presented in step three. Step four draws some "Georgist" conclusions on monetary reform today and offers suggestions for consideration.

This study was proposed because several years ago on first reading George, I found indications that his monetary views might have been quite advanced and potentially relevant to present day arguments over the proper monetary role of government. This research has confirmed that – to a much larger and clearer extent than I had imagined.

His monetary viewpoint may be especially important to the divergent monetary prescriptions advocated from participants within the present day Georgist movement. Some prominent Georgists advocate a move to "free banking"; a quite radical change from our present monetary system. Other prominent Georgists advocate the establishment of a gold standard. Some support establishing forms of locally circulating moneys often referred to as LETS (Local Exchange Trading Systems). An awareness of George's viewpoint could be an important factor in such discussions.

The conclusion of AMI's monetary research to date is that such monetary systems cannot be reconciled with two of George's overriding requirements: that social institutions be consistent with individual self-determination; and with the principal of equal rights.

True monetary reform must take a better path. AMI's research indicates that money, properly defined, is a legal institution of society and government; not a commodity or economic good of the markets; that if money is a legal institution, then the control of monetary systems can be rightfully viewed as a proper function of government; much as the law courts are. This broad definition or attribute of money leads directly to conclusions on what is needed for a monetary system to operate justly; not favoring one or another group through the establishment of special monetary privileges. This study finds (repeatedly in his own words) that Henry George in large part shared this view.

This viewpoint does go counter to the current idolization of free markets, and the faith being placed in them to automatically create optimum results for mankind. But the overwhelming body of historical evidence that we've studied indicates that while some things can and should be left to free markets; a society's monetary system is emphatically not one of them.

This was the reason suggested by AMI to the Schalkenbach Foundation, that we do this study rather than just requesting others much better versed in Henry George's work to simply look up what he wrote about money. His monetary views need to be examined in the light of their implications for present day questions. The local currency advocates would find some very limited support from George's actions. The free bankers and the gold advocates would probably both tend to characterize George's monetary position as primitive. But according to AMI's research, this is a misreading – perhaps not so much of George's views, but of monetary theory – of the nature of money.

## **George's World View**

We now step back a bit from our monetary topic to note the major aspects of George's work which will later help place his monetary ideas into context. Bear with me – those of you who know George like the back of your hand. This paper does not assume the reader is well versed in his work.

## **The Moral Crusader**

“(Political Economy) may be argued in a great many different ways, but I prefer the ground that its opponents have taken, the ground of justice. I believe that justice is the supreme law of the universe”, wrote Henry George

One of George's important accomplishments was the re-introduction of moral issues into economic thought. From Adam Smith's *Wealth Of Nations* (1776) and earlier, there had been a tendency for moral questions – evaluation of the right or wrong – the good or evil of economic policies to be largely ignored or shunted aside and replaced by a questionable utilitarianism which generally ended up supporting the status quo of the power structure.

Thus Ingram wrote of Adam Smith that “He does not keep in view the moral destination of our race, nor regard wealth as a means to the higher ends of life.”

One of Smith's contemporaries – economist Reverend Thomas 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”.

## **In the Scholastic Tradition**

But there is nothing dismal about George's writings, which can be seen as in the much older tradition of the Catholic “Scholastics” or “Bookmen” – the church scholars of about 1100 to 1500 AD who were very familiar with the existing written works available in the west. The Scholastics made the first attempt at a science of economics to build a rationally based moral code of business behavior and determine what should be, rather than what was. To their credit, they were much more influenced by Aristotle than by the bible, and many of them such as Albert the Great of Cologne and his student Thomas Aquinas were later canonized as saints.

Though George was generally well read, I didn't find indications that he was aware of this body of work which has become better known in the English speaking world since the 1940's. When George uses the term “Scholastic” it is to refer negatively to the university economists of his day.

While the content of George's work differed greatly from that of the Scholastics; their form was very similar. George did not focus on the issues of concern to the Scholastics – mainly usury, and the “just price”- but he would have probably felt very much at home with their method, and especially with their deep concern for justice. Their method – a reliance largely

on theoretical reasoning – is useful for investigating questions of morality, but not as useful in determining questions of fact or of utility. Interestingly, most 19th and 20th century economists continued using the Scholastics theoretical method, but ignored the moral questions and inappropriately applied it to other matters. George, concentrating on moral issues, generally avoided this error.

### **George’s Guiding Principles**

Also diverging from the Scholastics was the manner in which George’s guiding principles were framed. The great goal of justice was shared by both, but the Scholastic’s aims were more socially oriented – a just order of society, in conformity with reason, observation, tradition and law – natural, human, and sacred law. George’s primary guidelines on the other hand, are framed in a much more individualistic fashion.

The two core principles which are George’s anchors, are evident – and explicit – throughout his writings: The principle of equal rights, and of individual self determination. George expresses this as

“The law of human progress...the moral law...the equality of right between man and man ... (and) the perfect liberty which is bounded only by the liberty of every other...” (P&P, 526)

### **The Religious Factor**

Though religion was important to George, in today’s terminology it would be more accurate to regard him as a highly spiritual man rather than an overly religious one. Barker’s Biography of George informs us that he went through an adolescent period of atheism, before returning to his Anglican roots. Much can be seen in George’s powerful answer to a wrathful God:

“...Little children are dying every day...because having come into this world- those children of god ... find that there is not space on the earth sufficient for them to live; and are driven out of gods world because they can’t get room enough, cannot get air enough, cannot get sustenance enough. I believe in no such god. If I did, though I might bend before him in fear, I would hate him in my heart. Not room enough for little children here!” (Standard, June 22, 1889)

In other words, not only the plutocrats, but God too, can be made morally accountable to the requirements of Man’s justice – God is not really “allowed” to be capricious and arbitrary.

Thus George was far from a bible thumper and recognized the danger of bibliolatry – deifying the Bible by regarding its writings as the absolute word of God. He explicitly addressed this problem:

“Here in New York, for instance, the spirit of our institutions and of religious fairness is violated by the rule which requires the reading of a chapter from the bible at the opening of the public schools. This is a relic of Protestant bibliolatry that ought to be suppressed. The bible has no more business in our schools than has the Koran or the Book of Mormon.” (Standard, June 22, 1889)

**One can guess George's reaction to the backward tide of bibliolatry which has swept over our nation in the past several decades.**

George was also sensitive to the dangers of sectarianism:

"I care nothing whatever for creeds – religion lies beneath creeds...But the essence of religion is the desire to do something for others than oneself, is the feeling that in working for the good of mankind one is working on the side of that great power that is all good...the men who are with us... are in their hearts religious men..." (Standard, August 3, 1889)

Consistent with his spiritualism, George harbored no racism. Belittling the idea of the hereditary transmission of social habits he wrote:

"In any large community we may see, as between different classes and groups, differences of the same kind as those which exist between communities which we speak of differing in civilization – differences of knowledge, beliefs, customs, tastes, and speech, which in their extremes show among people of the same race, living in the same country, almost as great as those between civilized and savage communities" (P&P, 492)

George admired many aspects of Judaic law but not in a superstitious way:

"This very day the only thing that stands between our working classes and ceaseless toil is one of these mosaic institutions....(given the state of political economy, it is certain that) the working classes would get no more for seven days' labor than they now get for six... That there is one day in the week that the working man may call his own... is due through Christianity, to Judaism..."

And he described the Jews as:

"...a people who, though they never founded a great empire nor built a great metropolis, have exercised upon a large portion of mankind, an influence, widespread, potent, and continuous, ... two thousand years been without country or nationality, yet have preserved their identity ... – a people who unite the strangest contradictions; whose annals now blaze with glory, now sound the depths of shame and woe" (also see P&P, 498)

### **George's Mixed Methodology**

George used both of the two main methods available to serious researchers – the theoretical/deductive method, and the empirical/inductive method.

Using the Theoretical Method, one starts with axioms or principles thought to be true or accurate. Then logical deductions or conclusions are carefully drawn from those hypotheses.

The Empirical Method is based more on actual experience – on observation and cataloging of data, and on experimentation if possible, under controlled, repeatable conditions where variables can be observed and their effects noted. Logical reasoning is then applied to the observed data to consistently "explain" them by theoretical constructions. More often than admitted the theoretical constructs come first, with researchers later searching out the facts. The great advances in the physical sciences of the past three centuries are laid to the empirical approach, and the scientific method.

Henry George's mixed approach was largely deductive, and one often observes in *Progress and Poverty* the evident pleasure he derived from taking his readers through several deductive steps in clinching his arguments.

**In several works he relates his use of what he called "mental experiments":**

"Its processes...consist chiefly in analysis...And, although...we can not use... experiment by artificially produced conditions... we (may) find ...experiments already worked out for us (in the diversity of human experience). ...There is at our command a method ...what may be called mental experiment. You may separate, combine or eliminate conditions in your own imagination, and test in this way the working of known principles."

"Now, just such mental operations as this are all that is required in the study of political economy. Nothing more is needed (but this is needed) than the habit of careful thought – the making sure of every step without jumping to conclusions. This habit of jumping to conclusions – of considering essentially different things as the same because of some superficial resemblance – is the source of the manifold and mischievous errors which political economy has to combat."

And:

"Thus in the main the science of political economy resorts to the deductive method, using induction for its tests...its most useful instrument is a form of hypothesis which may be called that of mental or imaginative experiments by which we may separate, combine or eliminate conditions in our own imaginations, and thus test the workings of known principles... we have only to be careful as to the validity of what we assume as principles." (SPE, 100; also see SPE, 29, 30, 98)

But one can sense a bit of over-confidence in his method when George writes "nothing more is needed". Because the key – and problem – is the amount of surety and confidence which can be placed in those necessary starting points – the "known principles". Its a bit like aiming a long range rifle. If the sights are only just slightly off, or even near perfect, the further one gets from the barrel, the easier for the aim or trajectory to be off the mark.

Another big risk of overly relying on the deductive method, is that once a falsehood enters the hypothesis it will muck up the whole works. And especially in political economy, which has been abused for centuries, intuitive certainty in a hypothesis is no guarantee of its validity, for the "intuition" may have resulted simply from exposure to the endless repetition and even the promotion of error by special interests.

One good example of this is Adam Smith's primary hypothesis and view that selfishness is at the base of all human activity, discussed below.

George was sufficiently aware of these problems to normally exercise great care in his definitions, attempting to discern carefully in the use and meanings of his terminology to get to bedrock; much more so than the typical political economist.

## **George Respected the Facts**

However, there are limits to such care, and what usually kept George on track and relevant, was something even more basic: While he clearly came to enjoy economic theorizing, he had an ingrained respect for observation – an overriding respect for the facts.

“Bring the question to the test of facts” wrote George in *Progress and Poverty* in considering whether wages were drawn from capital or not. (P&P, 60)

### **In considering Malthus ideas on population, George noted:**

“To the supreme and final test of facts we can easily bring this theory.” (P&P, 140)

Supreme and final test conveys that however appealing or seductive a theory may sound, the final arbiter of theories for Henry George, is the reality of the facts. This may seem obvious, but it is especially important in monetary thought, and is quite often ignored by political economists.

For example, regarding Malthus’ population pressure theory George observed:

“What I say is this: that nowhere is there any instance which will support this theory; that nowhere can be properly attributed to the pressure of population ...that everywhere the vice and misery attributed to overpopulation can be traced to the warfare, tyranny, and oppression which prevent knowledge from being utilized and deny the security essential to production.” (P&P, 122)

A negative example: the political economists intuitively assumed or jumped to the conclusion that the value of gold and silver as money, was determined by the cost of mining and the available supplies of the two metals. However Alexander Del Mar points out that there is no evidence that they ever bothered to check on the costs of production. His research for the 1876 US Monetary Commission found that such mining was often done at a loss. Nor do I believe that the political economists examined the available evidence (the facts) on the metal’s supplies. For these facts do not support their assumptions either. George specifically warned about such jumping to conclusions.

## **George’s Major Themes**

Henry George’s primary discovery, that poverty amidst plenty resulted from treating the land as private property was sparked not by theory, but arose from his direct observation of the existence of the most abject poverty and hopelessness side by side with the greatest concentrations of wealth.

“Where population is densest, wealth greatest, and the machinery of production and exchange most highly developed – we find the deepest poverty, the sharpest struggle for existence and the most enforced idleness.”

“In the progress of new settlements to the conditions of older communities it may clearly be seen that material progress does not merely fail to relieve poverty – it actually produces it.”

(P&P, 6, 9; also see 224; also see The Crime Of Poverty )

In 1790 – US cities contained 3.3% of the nation’s population. By 1880 it was 22.5%. George had directly observed this process in its early stages in San Francisco when the city was only 30 years old, where the underlying elements were perhaps more clearly distinguishable. He had also observed its later stages more fully developed in New York City. Add one insightful flash or vision (not yet an “official” ingredient of the “Scientific Method”) and he was able to make the logical linkages which explained the observations from his experience:

“I well recall the day when checking my horse on a rise that overlooks San Francisco Bay, the commonplace reply of a passing teamster to a common place question, crystallized, as by lightning-flash my brooding thoughts into coherency, and I there and then recognized the natural order – one of those experiences that make those who have had them feel thereafter that they can vaguely appreciate what mystics and poets have called the “ecstatic vision” . (SPE, 163)

Later using theoretical reasoning, his further analysis was able to conclude (or deduce) that rent would automatically rise to levels that kept labor on the edge of subsistence.

### **George’s Conclusion and Solution**

George’s inescapable conclusion was plainly stated:

“Our boasted freedom necessarily involves slavery so long as we recognize private property in land. Until that is abolished, Declarations of Independence and Acts of Emancipation are in vain.” (P&P, 357)

But he also offered a solution:

“... it is not necessary to confiscate land; it is only necessary to confiscate rent...the simple yet sovereign remedy, which...(will) afford free scope to human powers, lessen crime, elevate morals, and taste, and intelligence, purify government and carry civilization to yet nobler heights, is – to appropriate rent by taxation... (and) to abolish all taxation save that upon land values.” (P&P, 404-406)

This became known as George’s Single tax proposal; considered a fair and painless tax since the increasing value of land itself (not including improvements) results from social causes such as population increase, and not from the work of the “owner”.

### **Adam Smith’s “Selfish” Error**

George’s analysis of Smith’s great error is a refreshing change from the continued lionization of Adam Smith, with its centuries of negative impact on mankind. Frederich Liszt informs us that the British Prime Minister William Pitt used to promote Smith’s book and usually carried a copy under his arm. But George’s moral approach is in stark contrast to Smith’s system. Following Buckles lead, George identified the underlying false axiom on which Adam Smith’s Wealth of Nation’s thesis 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... 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.” (SPE, 89, 90)

When Buckle says formerly he made them “sympathetic”, he is referring to Smith’s only other book, published earlier, the Theory of Moral Sentiments in which Buckle concluded that Smith had done the opposite – there he excluded selfishness!

### **George’s “Force of Forces”**

George substituted a very 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)

and

“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)

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.

Finally, even Max Weber’s harsh judgment will apply:

“Specialists without spirit, sensualists without heart; this nullity imagines that it has attained a level of civilization never before attained.”

This de-evolutionary process, encouraging a lower form of humanity has been ongoing especially in the English speaking world for well over 2 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.” (SPE, 99)

Ecco Homo – circa 2000!

## **The Identification of Evil**

George takes the unusual step of identifying evil in his early work. First he identified the law of progress:

“Thus association in equality is the law of progress. Association frees mental power for expenditure in improvement, and equality, or justice or freedom – for the terms here signify the same thing, the recognition of the moral law” (P&P, 508)

And 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)

Interfering with human progress is evil, because:

“The law of human progress, what is it but the moral law?” (P&P, 526)

George addresses the question of evil again in his last work:

“Both good and evil pass on as waves pass on. Yet I cannot but think that in the long run, good outlives evil. For as to the normal constitution of the human mind, evil must bring the wider and more permanent pain, the impulse to its perpetuation must meet the greater friction.” (SPE, 510)

## **The Corruption of Economics**

An important recurring theme in George is the purposeful corruption of the science of economics in order to serve and apologize for wealthy special interests. As a self trained economist, the academics preferred to ignore the uncomfortable realities George’s work exposed. But he did not ignore them.

One of the great enjoyments of reading George is his use of plain, powerful language. He didn’t allow the several forms of economic oppression to hide behind obtuse theories and never hesitated to openly identify them as slavery. He regularly stripped 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, less scrupulous, 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...”

“...colleges and universities and similar institutions ...are especially precluded under present

conditions from faithful and adequate treatment of (political economy)...

...whoever accepts from them a chair of political economy must do so under the implied stipulation that he shall not really find what it is his professional business to look for.” (SPE, xl, xli)

“It is evident that...a powerful class whose incomes could not fail to be endangered by a recognition...that what makes them...wealthy is not any part of the wealth of society, but only robbery, must from the beginning ...have beset (political Economy’s) primary step, the determination of what the wealth of society consists of...especially after it had been taken charge of by the colleges and universities, which...must be peculiarly susceptible to the influence of the wealthy classes.” (SPE, 140; also see SPE: xxxviii; xxxix; 134, and 138)

In the four major themes above, George was able to bring a substantial degree of observation and factual back-up to his conceptualizations. His three important themes described below were more theoretically based.

### **Labor Creates its Own Value**

One of the most remarkable concepts pioneered in *Progress and Poverty* is that labor always pays its own way, creating its own value.

“That wages, instead of being drawn from Capital, are in reality drawn from the product of the labor for which they are paid.” (P&P, 23)

And:

“...in every case in which labor is exchanged for commodities, production really preceded enjoyment; that wages are the earnings – that is to say, the makings of labor – not the advances of capital, and that the laborer who receives his wages in money (coined or printed, it may be, before his labor commenced) really receives in return for the addition his labor has made to the general stock of wealth, a draft upon that general stock, which he may utilize in any particular form of wealth what will best satisfy his desires; 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, but on the contrary represents the wealth, or a portion of the wealth, his labor has already added to the general stock.” (P&P, 28-29)

This theme holds great unrecognized latent power, should it ever be wisely combined with the realization of money’s nature as an abstract legal institution of society.

### **The Interest Theme**

For George, interest is the share of production that goes to the owner of capital. George thought the “reason and justification of Interest” arose from “the active power of nature; the principle of growth, of reproduction, which everywhere characterizes (life)...is the cause of interest...” (P&P, 181)

Thus a loan would help employ nature to gain a surplus yield to the farmer and interest was

the lenders share. Then George used this natural growth phenomena to justify interest in non productive lending:

“Now the interchangeability of wealth necessarily involves an average between all the species of wealth...And so in any circle of exchange, the power of increase which the productive or vital force of nature gives to some species of capital must average with all....” (P&P, 182)

And

“It is this general averaging, or as we may say, ‘pooling’ of advantages, which necessarily takes place...which gives to the possession of wealth incapable in itself of increase an advantage similar to that which attaches to wealth used in such a way as to gain from the element of time.” (P&P,185)

But it can be questioned whether George was too easy in extending this “justification” to all forms of taking interest. Rather than his usual approach of carefully discerning between economic activities, in this case he lumped them together. For example the Scholastics carefully distinguished between different forms of earning interest, which were always permissible, and usury, which was not. In effect properly charging interest on some loans becomes a cover for improper loan sharking, for example as practiced today by credit card companies, or the IMF, to take an extreme case.

In all George’s works read for this study, the word usury came up only once . George’s avoiding the usury issue, in a morally based work, may have stemmed from his faith in freedom of trade; in this case emphasizing the freedom portion of his two part formula; and de-emphasizing the responsibility portion of it as regards the kind of lending activities that are permissible within a framework of justice. It seems the moral work of the Scholastics had been as much censored from George’s view, as his ideas have now been kept from present day students of economics.

## **The Free Trade Theme**

Unfortunately following this theme nearly destroyed Georgism, and that is the main reason it is discussed here. This time the pendulum swung far over to the freedom portion of the formula in George’s most theoretical work, Protection Or Free Trade, published in 1886. The stated purpose of the book on page xiii, is to demonstrate that “free trade better accords with the interests of labor.” But it turned out just as futile to make that case for implementing free trade in 1886, as it would be today. The problems stem primarily from methodological and judgment factors; determining how and when logic may validly be applied to particular circumstances; working with weak analogies, and not fully appreciating there can be a difference between what happens between the axioms and propositions of a theory, and what happens in the reality that those propositions are only imperfectly describing.

For example on page 30:

“I began to realize that these propositions, if true, must be universally true, and that not only should every nation shut itself out from every other nation; not only should the various sections of every large country institute tariffs of their own to shelter their industries...(but

that it) must apply as well to the family.”

The ideological side of George’s personality, (not the same thing as his high ideals) got the best of him here, and he makes the political economist’s error of equating nation, with business interests, with family. Another example is on page 44 where he accords to sociology the exactness, one could say perfection, then thought to exist in the physical sciences:

“Social laws, like physical laws, must apply to the molecule as well as to the aggregate.”

Today its easy to realize that even the physical sciences as presently developed, don’t offer such universality. Perhaps just a tiny bit of modesty regarding the effective power of his thought processes and methods, would have served George well in this book. His old habit of bringing it to a test of the facts, might also have been helpful, had he done more of that in this largely theoretical work.

The free trade theme is a potential danger for Georgists; in my view continuing to test whether their concern will be more with ideologically advancing a lifeless theory, or with heeding the glaring need for economic justice for a financially besieged people. For the concern for “free trade” comes from a different part of the person or soul, than the concern for justice in land (and monetary) reform. Please see Appendix 2

## **The Irish Famine**

Much of George’s American support arose out of the problem of Irish – English relations; especially the famine which was mercilessly inflicted on Ireland. A part of the early support which launched George at his triumphal “Return from Ireland Dinner” in New York resulted from his having been arrested in England, and the mistaken perception that he was Irish.

The horrific 1845 famine where out of an 8 million population, 1,029,000 children, women and men starved to death, would forever define English/Irish relations. George showed that the starvation was unnecessary and a direct result of the land question:

“Even during the famine, grain and meat and butter and cheese were carted for exportation along roads lined with the starving and past trenches into which the dead were piled.” (P&P, 125)

George responded to the smear that the Irish starved because they were stupid:

“For it was not the imprudence ‘of Irish peasants’ as English economists coldly say, which induced them to make the potato the staple of their food...They lived on the potato because rackrents stripped everything else from them.” (P&P, 125)

There was also an underlying monetary system cause of the famine, traceable to the way the Bank of England, rather than the English nation, had created money of thin air for warfare, since the Bank’s founding in 1694. George may not have been fully aware of this but it is of interest to this study. As described by Christopher Hollis in his book *The Two Nations*:

“These exports of food (enough to feed for a year four times the number who starved)...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.”

and

“...(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.”

Had the English Government created its own money, or had the Bank of England been government owned, the money that was created for a century of warfare would not have been a government debt, and there would have been no interest payments for it. (This historic example points out a conflict between the money power, which has generally benefited from warfare finance; and the landlords, who were easier to tax to pay the interest on it.)

### **George and Father McGlynn**

George made a strong alliance with Father McGlynn, pastor of St. Stephens in New York, the most important Catholic Parish in the United States. Like George, McGlynn was a powerful orator, and also shared George’s concern for two moral imperatives. (“Economics being a matter of human relations, it was necessary that these relations be established on a basis of justice and freedom” wrote McGlynn )

Stephen Bell informs us in Rebel Priest And Prophet that the two re-enforced one another and that their average follower was probably more impressed by their oratory skills and calls for justice than by the economic arguments:

“(Many) had been won by the eloquence and personal magnetism of the two men but had imbibed little real understanding of what it was all about....”

### **George’s Political Moves**

George normally kept a single-minded focus in promoting his ideas for land reform. He had run for Mayor of New York City more to spread those ideas than to actually become Mayor:

“To (George) a political campaign was merely an opportunity to center the public mind on his proposal and induce study of it. He was glad he had not been elected Mayor of New York...” wrote Stephen Bell.

In George’s view:

“Social reform is not to be secured by noise and shouting; by complaints and denunciation; by the formation of parties, or the making of revolutions; but by the awakening of thought and progress of ideas.”

and

“The great work of the present for every man, and every organization of men, who would improve social conditions, is the work of education – the propagation of ideas. It is only as it aids this that anything else can avail. And in this work every one who can think may aid – first

by forming clear ideas himself, and then by endeavoring to arouse the thought of those with whom he comes in contact.” (Soc Pr, 242, 243)

Yet the political establishment was so concerned with his candidacy that a high powered opponent, Abram S. Hewitt was drafted to oppose him. Mason Gaffney wrote:

“In 1876, Hewitt was Tilden’s campaign manager, at the very center of the deal that let Hayes steal the election.... Hewitt was the majority leader. He was Presidential timber himself. The plutocracy threw a crack general into the fight against George, and his mission was clear. He said, ‘I am a candidate for Mayor for only one purpose. I regard the election of Henry George as Mayor of New York as the greatest possible calamity ... . For that reason and that only did I take this nomination.’ Academic historians and economists have gone far towards wiping out our collective memory of the Georgist phenomenon, so even most Georgists have little idea of its force. We may measure that by the force that was marshaled against it.”

Hewitt won with 41% of the vote to George’s 31%; and Teddy Roosevelt got 28%. Louis Post thought George might actually have won; but he was apparently above the fray and relieved at not having to serve as Mayor.

George would say that “What I care for is not how men vote, but how they think.”

But a more balanced approach would have been useful to Henry George, to help him to later demonstrate more adequate political skills and judgment, which were needed to protect his movement.

In 1886, McGlynn and George had formed the new United Labor Party, specifically to focus on the land question. The party grew dynamically until early 1888; what would prove to be the fateful pivot year for Georgism.

To try to understand what he did next, consider that at age 49, George’s economics books were undoubtedly among the most widely read and loved works of his day, but that he and his ideas were never openly mentioned by the educational, economic or political establishments; That he received no credit or recognition for his important accomplishments was clearly painful to him, perhaps more so since he was a self made economist without the psychological comfort that academic degrees might have afforded.

The hurt is evident in George’s discussion of the 1886 change in the way Encyclopedia Britannica handled Political Economy:

“(The article) undertook to review all that had been written about (political economy) ...of the writers...from the most ancient times, through a first, a second and a third modern phase... writers of France, Spain, Germany, Italy and northern nations are referred to in utmost profusion, but there is no reference whatever to the man or the book that was then exerting more influence upon thought and finding more purchasers than all the rest of them combined...”(SPE, 205, 206)

Furthermore, the piece was immediately reprinted in book form under the direction of Professor E. J. James, of the University of Pennsylvania; the person and institution that George considered to be at the heart of protectionism philosophy in America. For George, it was too much.

## **First the Trap**

In Dec. 87 President Grover Cleveland proposed eliminating import tariffs, to the delight of both McGlynn and George. George's book *Protection Or Free Trade* had been published in early 1886. He interpreted Cleveland's statement as an important move toward his cherished ideal of free trade and thought it deserved his full support. Perhaps in Cleveland's move he also saw an opportunity to quickly affect a major national issue. At the time such taxes were the main source of government revenues, but since they often created lucrative privileges for wealthy owners of protected industries, there was a resentment of them.

I suspect that a well thought through trap was laid for Henry George in late 1887, early 88. First a false interview appeared widely in newspapers where George said he wouldn't run for President and wanted their new United Labor Party to stay out of the fray. He quickly repudiated the interview, but still toyed with the idea of supporting Cleveland.

But McGlynn refused to "be led off the trail of 'the land for the people' by any call from Grover Cleveland for tariff reform. He quoted what George himself had said in his book about the inadequacy of free trade, and its benefits being absorbed ultimately by the landed interests unless the land question itself were settled, and settled right. This he said was sufficient reason for refusing to abandon the land reform for a fight on the tariff that promised little result", wrote Bell.

Father McGlynn shared George's support for free trade, but he and many other supporters passionately warned that the land issue must be their first and foremost concern, Otherwise, as George himself had warned in *Protection Or Free Trade*, whatever benefits that might possibly be derived from free trade, would soon wind up in the landlords pockets.

## **Then the Political Quicksand**

George doggedly resisted, confusing his stubbornness with a stand for principle, and ignored the impassioned pleas of much of the membership. He split with McGlynn, sending him a curt letter of resignation as Vice President of their Anti Poverty Society on February 25, 1888. McGlynn replied with a gracious 2 page letter praising Henry George and expressing deep gratitude for his services. The movement quickly divided. The party floundered and the circulation of *The Standard*, George's weekly newspaper, soon fell off, placing George under pressure of constantly worrisome financial straits.

Reading George's sparse 1888 correspondence , almost all with British supporters, George always placed an optimistic face on events:

### **4 Letters to Mr. Briggs in London:**

Feb. 29, 1888:

"We are going to have the free trade fight here at last in spite of the cowardly politicians and the ignorance of our people..."

March 24, 1888:



“The truth is that these half way people who call themselves tariff reformers in our country and free traders in yours, are afraid of radical men like you and me.”

August 31, 1888:

“...the fight is getting hot here but I think we shall win and make a great advance toward the free trade you want.”

October 15, 1888:

“The good fight is going on wonderfully well...and the free trade idea is making wonderful advances...a free trade party after your own heart will be making the fight in the United States...”

Letters to Mr. Walker, March 17, 1888:

“9/10 of our really intelligent friends...are with us...the Standard is not doing as well as I would like...but it is certain to do better.”

Letter to Wm. Loyd Garrison, March 19, 1888:

“...I am very much pleased with the response of the readers of the Standard to the free trade question. I think fully nine-tenths of the single tax people are with us in believing that our energies ought to be thrown this summer into the free trade fight.”

However the direction was generally downhill after the split with McGlynn. (And McGlynn had problems of his own – being temporarily excommunicated by the Vatican.)

## **And Finally the Insult**

That George was treading on political quicksand soon became evident from Cleveland’s campaign slogan, which was clearly a disavowal of George:

“Dont-dont-dont be afraid! Tariff reform is NOT free trade.”

Cleveland lost, but ran again 4 years later. Like a bulldog, George supported him again in the Standard for June 29, 1892:

“At last, quicker even than we had dared to hope, what we have struggled for and waited for has come to pass, and the two great political parties of the United States stand fronting each other on the naked question of Protection or Free Trade (note – that’s the exact title of his book).”

However, as Louis Post, editor of The Standard (from 1891) later noted:

“Cleveland was elected. But... he sidetracked the free trade policy and plunged the country into the free silver contest of 1896 by taking a defiant stand on the gold standard side. In doing that, he “lined up” with the same plutocratic interests which on the tariff issue were devoted to protection.”

Finally George and his friend Tom Johnson, a delegate to the 1896 Democratic convention, both supported William Jennings Bryan’s campaign, having concluded that “a free silver

platform...would be the better choice as compared with the 'gold bug' policy" wrote Post.

With the benefit of hindsight, supporting free trade in this way must be viewed as a disaster for Georgism. In retrospect Louis Post would write:

"When we prove that protection lessens the supply of goods by increasing the work necessary to produce them, what have we proved to men whose greatest anxiety is to get work? ...in civilized countries the majority of the people are helpless unless they find someone to give them work."

Years later Michael Flurschein, one of George's earlier protégé's who emigrated to New Zealand helping to raise the land question there and in Australia, noted :

"The intermixture of tariff legislation and land reform has thus done a great deal of harm, especially in the United States and the British colonies."

And Flurschein perhaps unfairly, but vividly expressed the free trade issue in this way:

"It is all very well for the wolf to preach to the sheep that the free right of mutually devouring each other is one of the most sacred adjuncts of free individualism among animals, so long as the case only lies between him and the sheep..."

Flurschein's last word on Henry George was to call him:

"A great Genius who unfortunately fell into the Smithian trap" in free trade.

And Flurschein's judgment was not just hindsight. In an October 19, 1888 letter, he expressed his high esteem for George and wrote:

"You still continue attacking at the wrong place...the cause of my irritation. You are the general and I am forced to follow. How happy you would make me if you would allow me to point out the best point of attack for your splendid sword – Single Tax!"

McGlynn too had shown this foresight, and many other supporters as well.

For Georgism to move forward meaningfully, Georgists must learn from both their successes and their mistakes; this error of leadership and its origin in applying an overly theoretical methodology to political activity has to be faced, understood and corrected. And that's why I've discussed it at such length.

## **George Visualized a Union of English Speaking Peoples**

Having received a warm and in some ways more respectful reception in England (even if sometimes in the form of serious criticism) and perhaps because of his ancestry, George seemed to have had a special place in his heart for his British followers. He even entertained a generalized concept of the eventual establishment of a union of the English speaking peoples:

"...we see in the future...that great republic that some day is to confederate the English speaking people everywhere that is to bring a grander 'Roman Peace' to the world....in meetings such as this...I feel an earnest (presentiment) of the coming time when we of one

blood and one speech are also to be one...What we want today is to bring us all together is , not union under one government that shall assume to govern, but that absolute freedom of intercourse that shall entwine all interests, that absolute freedom of intercourse that shall establish a daily ferry from this side of the Atlantic to the other ..." (Standard, August 10, 1889)

### **Pope Leo's *Rerum Novarum***

As the Standard went into decline, the first serious attack on George from the Catholic Church came in 1889, when Father Victor Cathrein labeled George an agrarian socialist. Professor Gaffney has characterized Cathrein as not really wanting to solve the problem of poverty, because he thought the rich need the poor in order to test their character by giving them chances to perform Christian charity!

In 1891 much larger troubles came in the form of Pope Leo XIII's encyclical, *Rerum Novarum*, On The Condition Of Workers, the Catholic Church's initial effort at spiritual guidance in modern (industrial) socio/economic matters. While much of the encyclical calls for a better treatment of working people by both employers and the state, without directly naming him a section of *Rerum* is aimed at George and other reformers, and workers are warned "not to associate with vicious men who craftily hold out exaggerated hopes (#30)".

Without clearly presenting George's viewpoint, it is erroneously lumped together with socialism and even the negation of private property altogether.

Prof. Gaffney points out that the Vatican was careful not to draw attention to George's works by mentioning him or openly banning them; and they never put *Progress And Poverty* on the list of banned books. Although the Church's error was evident to Catholics familiar with George, still the Encyclical further pressured him.

While *Rerum Novarum* called for justice to workers, certainly a goal shared by Henry George, it gave the matter no teeth and its tone ended up more concerned with protecting the status quo of property rights and the social order. Remedies were to be left mainly to charity. But *Quadragesimo Anno* issued by Pius XI in 1931 after the great stock market crash (on *Rerum*'s 40th anniversary), was another matter. Though it profusely praised Leo XIII and "re-affirmed" *Rerum*, when one reads its language, very significant changes are apparent. First the category of "reformers" is enlarged beyond the universally vicious:

"Some were seeking the overturn of everything, while others, whom Christian training restrained from such evil designs, stood firm in the judgment that much of this had to be wholly and speedily changed (sect. 4)."

Again, George is not named, leaving the possibility he is to be included among such Christians. *Quadragesimo* also made significant advances in other areas. While it noted the importance of charity and of changing the moral attitude of men, it significantly recognized the importance of juridical actions and reforms; how the state must regard among its duties the economic protection of citizens, especially the poor and weak (e.g. sections 25, 28, 30, 49, 62, and 77-80).

*Quadragesimo* also attacked the concentration of wealth as an "unanswerable argument" on

the unjust distribution of the products of industry (e.g. sections 58-62). But its strongest language is reserved for condemnation of the emergence of an economic “dictatorship”:

“(105, 106) ...It is obvious that not only is wealth concentrated...but an immense power and despotic economic dictatorship is consolidated in the hands of the few...This dictatorship ... since they hold the money and completely control it, control credit also and rule the lending of money...and have so firmly in their grasp the soul, as it were, of economic life that no one can breathe against their will.”

Remember this was just two years after the Great Crash, and a year or two before the worst of the Depression. Perhaps Quadragesimo encouraged Cardinal Mundelein of Chicago to write in 1938:

“The trouble with us in the past has been that we were too often allied or drawn into an alliance with the wrong side. Selfish employers of labor have flattered the Church by calling it the great conservative force, and then called upon it to act as a police force while they paid but a pittance of wage to those who worked for them. I hope that day is gone by. Our place is beside the working men. They are our people, they build our churches, our priests come from their sons.”

Thus while the Church moves very slowly; in my view it would be an error to write it off as a potential force for reform, and to ignore efforts in that direction; and that is why I’ve devoted a full page to these encyclicals.

### **The Science of Political Economy and George’s Early Demise**

It was at this low point in 1891 that George began a long and arduous project, which may have been ultimately responsible for his early death in 1897 at only age 58. This grand task which he felt compelled to selflessly devote himself to was to research and write his last book, THE SCIENCE OF POLITICAL ECONOMY. If we but listen carefully to what George tells us about this process, you will see why I suggest that “economics” killed him:

“In all the dreary waste of economic treatises that I have plodded through, this (by J. S. Mill) ... is the best attempt I know of to explain...the laws of distribution.” (SPE, 432)

And:

**“...Schopenhauer speaks of 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. But of this very thing, Schopenhauer himself with all his strength and brilliancy is a notable example...His industrious study of Kant had evidently reduced him to that state of mind which he speaks where ‘hollow phrases count with it for thoughts’”. (SPE, 346)**

And I am suggesting that George too became such a victim; not of Kant but of “Political Economy”.

An example of this process, in Book V (SPE, 497-503), where George faithfully tries to make sense of Adam Smith’s obfuscation regarding labor determining the value of money, but it is in

vain, as it must be. A century earlier, Smith's contemporary, Thomas Malthus had noted 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.

Finally in this weakened state, when Tom Johnson warned Henry George that the pressures of running for Mayor of New York City again in 1896 might prove fatal, his almost wistful reply was:

"Wouldn't it be glorious to die that way".

George passed away on October 29, 1897; his longtime friend and supporter Tom Johnson at his side. His old ally Father McGlynn delivered the funeral oration to a vast throng gathered at Greenwood Cemetery in Brooklyn:

"As truly as there was a man sent of God whose name was John, there was a man sent of God whose name was Henry George. ...God...took this lad Henry George, a lad with so little schooling...and made him the instrument for good which he became, the messenger of a great truth"

This is from one who knew and understood him; fought with him, yet loved him dearly. McGlynn continued:

"Why is this vast gathering assembled here today... why is it that vast multitudes have come from early morn...to gaze mournfully and lovingly on his face, and to contemplate again the noble character of the man? It is because he was a man sent of god, – and his name was Henry George."

The "killer" book was finally published posthumously by his son. It offers some excellent and important clarifications and expansions, such as on Adam Smith's selfishness assumption. At great personal cost, George fulfilled what he considered a solemn duty, to cover the whole field of political economy. That it did not result in new ground breaking advances as he had made in *Progress And Poverty*, at age 40, is not really a criticism – that would be expecting too much. The last section of the new book dealing specifically with money, discusses credit in important ways foreshadowing some present day developments. But these discussions don't rise to the great political clarity evident in George's monetary and banking discussions in *Social Problems*, written at age 44.

With this abbreviated background of Henry George's thought, values and method, we are now better prepared to examine his monetary views.

### **The Monetary Context in Which George Lived and Wrote**

It is a thesis of the American Monetary Institute that by mis-defining the nature of money, special interests have often been able to control a society's monetary system, and in turn the society itself. Therefore before our readers can fully evaluate George's monetary views, they need to know their context and first get a clearer picture of US monetary history than the economists have been willing or able to provide. For this purpose I present here brief excerpts

from chapters 16 to 19 of my book, The Lost Science Of Money. This is not to say that George was aware of all of this history; more certainly, he was not. Yet he saw or was aware of enough of it, and with his overriding moral viewpoint, he was still able to come to the correct conclusions on how the US monetary system should operate.

## **A (Very) Abbreviated Monetary History of the Us – Part 1**

### **The Money Power vs The Constitution**

(These sections on American Monetary History are highly edited excerpts from 4 chapters of the Lost Science Of Money (total 24 chapters) by Stephen Zarlenga. They appear here by permission of the American Monetary Institute, which owns the copyright on that work, and may not be re-produced in any way, without the express written permission of The American Monetary Institute. Please see the Institute's web site at [www.monetary.org](http://www.monetary.org) or write to PO Box 601, Valatie, NY, 12184.)

Dear Reader, for these sections you should consult my book, The Lost Science of Money. There is an order form at <http://www.monetary.org/lostscienceofmoney>.

For purposes of Understanding Henry George's monetary viewpoint and positions, please continue to read below.

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### **Henry George's Monetary Views**

George's son, Henry Jr., tells us that his father thought that "money is a sibling of language" (SPE, x), referring partly to its universal significance and inseparability from the advance of mankind, but also to the way he thought it had developed:

"Money is not an invention, but rather a natural growth or development, arising in the progress of civilization from common perceptions and common needs." (SPE, 512)

In this vein, one could also call the law a development rather than an invention.

### **The Difference between Wealth and Money**

George was well aware of a special confusion between the definition of money and of wealth. While wealth is tangible, he 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. (SPE, 493-4)

And he cited Archbishop Whately on the harmful effects of this peculiar confusion:

"It has for centuries done more and perhaps for centuries to come will do more, to retard the improvement of Europe than all other causes put together." (SPE, 141)

We've just related how this confusion helped enable financial interests to keep the monetary power from being properly defined in the U.S. Constitution.

George accurately noted 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)

And he thought that to eliminate such thought control required eliminating the source of the controller's power.

Thus in both *Progress and Poverty* and *The Science Of Political Economy*, George devotes considerable attention to various definitions of wealth; finally settling on: “Natural products that have been secured, moved, combined, separated, or in other ways modified by human exertion, so as to fit them for the gratification of human desires.” (SPE, 147) However, he did not formulate such a careful definition of money. One wonders how his work would have developed had he concentrated earlier on finding the definition of money; perhaps starting with Aristotle's essential definition of *Nomisma*: “Money exists not by nature but by law” (Ethics, 1133)

Its significant that while Adam Smith dealt with the topic of money among the very first subjects, and thoroughly obscured it in his only book on economics, *The Wealth Of Nations*; Henry George put money off to the very last thing to be considered in his last book, indeed posthumously. George thought he had to clear up the concepts of wealth and value before he could undertake the concept of money. But I'd suggest that really was not necessary and perhaps even the other way around, since both value and wealth are generally measured or expressed in terms of money.

### **Early Indications in Progress And Poverty**

There are early indications in *Progress and Poverty* of George's advanced monetary awareness at age 40:

“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, but on the contrary represents the wealth or a portion of the wealth his labour has already added to the general stock.” (P&P, 29)

Making this distinction between wealth and money, is usually a key step on the road to a fuller monetary awareness. It's not an obvious step, for it requires abandoning a more comfortable concrete view of money as a tangible physical thing and adopting a view of money as an abstract power. For example, those insisting on gold backing for “money” have usually not yet taken this step.

George continues the same thought:

“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)

Indeed one can trace much of the regression to metallism of professional monetary thought in the 19th and 20th centuries back to Adam Smith’s monetary errors, inconsistencies and contradictions. The greenback supporters later overcame this, as did Henry George.

Another indication of George’s monetary awareness is in his son’s biography describing how George helped Mr. Moxham set up an emergency money system for the Johnson Company (see below):

“Mr. George regarded this as an illustration of what the United States could do to clear up the currency difficulties – issue from its own treasury a paper currency based upon its credit and interchangeable with its bonds.”

Contrary to most economic opinion, this type of “greenback” monetary proposal, has never really been discredited, but has merely been smeared and ignored, as have George’s views on land. In fact the present Federal Reserve System can be viewed as a form of such a proposal; although with the critical flaw added that the Fed is privately owned and privately managed, opening the door to conflicts of interests, and establishing special monetary privileges.

These and other early indications were interesting, but not really conclusive, and not always consistent.

### **George Was a Greenbacker**

However by age 44, in *Social Problems* (1884), George demonstrated a fully developed concept for how an advanced monetary system ought to operate:

“It is not the business of government to direct the employment of labor and capital, and to foster certain industries at the expense of other industries; and the attempt to do so leads to all the waste, loss and corruption due to protective tariffs.

“On the other hand it is the business of government to issue money. This is perceived as soon as the great labor saving invention of money supplants barter. 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, as society became well organized, led to the recognition of the coinage of money as an exclusive function of government. When in the progress of society, a further labor-saving improvement becomes possible by the substitution of paper for the precious metals as the material for money, the reasons why the issuance of this money should be made a government function become still stronger. 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 the assumption by each State of the Union of the power to license banks of issue 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 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 sensible increase the influences which exert a corrupting effect upon their government.” (Soc Pr, 178-9)

It is normally very difficult to write about monetary systems as concisely as George does here and still remain accurate. That he has done so indicates he put study and effort into it. George continued to express this view for about 15 years until his death. He repeated the position in 1886, when 46 years old, in Protection Or Free Trade (page 12), stating that government currency is preferable to private bank currency, based on the bank holding government bonds as reserves:

“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? Yet special interests have sufficed with us to institute and maintain a hybrid currency for which no valid reason can be assigned than private profit.”

We see this theme repeated again in the Standard in 1888, where George at age 48, focused on how the fractional reserve feature of the banking system placed the bankers in a specially privileged position – able to have both the interest on the money they loaned to the Government, and still have nearly the full use of that money to make further loans(!):

“... by means of the national banking system we have permitted the holders of a large part of the public debt to enjoy the principle while they draw the interest. Through the national banking system the banker was allowed to draw from the government \$80,000 in money for every \$100,000 in bonds he deposited, and then to draw interest on the whole \$100,000. This proportion was subsequently increased to 90%, and now a bill is pending in Congress to allow the national banks a dollar in money for every dollar in bonds they deposit, while paying them full interest on the dollar.”

The article continues with George pointing out the “absurdity” of backing the currency with silver, or another commodity. Remember the great discovery demonstrated by the Massachusetts bills of credit in 1690 was that a “promise to receive” rather than a “promise to pay” was sufficient to empower a properly issued government paper currency:

“And not content with this, as though from the mere desire of paying as much interest as possible, and making the redemption of our public debt as slow as possible, we are actually buying up enormous amounts of silver, for which we have no more use than for so many tons of cobblestones, and storing them away in vaults. Secretary Fairchild sees the absurdity of coining the silver and proposes instead that it shall be stowed away in bars. But why not leave the silver in the ore and the ore in the ground? That would be a far greater economy. As for the silver notes, they would be just as useful and just as readily taken if they promised to pay silver yet to be mined and refined, or if instead of promising to pay anything at all, they were simply made receivable for public dues.” (Standard, Feb 11 1888)

As Kenneth Wenzel has pointed out in his Anthology Of Henry George’s Thought:

“A condemnation of banks and a call for monetary reform were part of the Georgist agenda for

improving America”

The Standard articles which we cite in this study are quoted from Wenzer’s pioneering work. Since the focus has rarely been placed on George’s monetary views, we’ll use this opportunity to present more of them:

“There never was any good reason for the institution of the national banking system, and there is not today any good reason for its continuance. Like all special privileges it is but a taxation of the many for the benefit of the few, and like all use of governmental power for private advantage, it has resulted in governmental extravagance and political demoralization. The pretense that there is some mystery about currency and banking that common people cannot understand, is like the pretense that no one but the members of the protected rings and trusts are competent to say what tariff taxes shall be levied on the people...The national bank notes current in the united states fulfill the functions of generally accepted money, not because they have the name of a bank printed on them, not because bonds ...are deposited for their redemption, but because they are issued by the general government, bear its stamp, and rest upon its credit. They are in no wise better than the notes directly issued by the government, but derive their security and usefulness from the same source that gives the greenback its security and usefulness – the fact that they are issued by the government and are receivable for its dues.... The proper business of banking is the receiving, the keeping and the loaning out of money, and the facilitation of exchanges by the extension , interchange, and cancellation of private credits. With the issuance of money the proper business of banking has nothing whatever to do.” (Standard, Apr 28, 1888)

And more:

“To withdraw the national bank currency and to substitute for it notes directly issued by the government would be to save annually for the people millions directly, and still more millions indirectly, but it would not in the least interfere with the proper business of banking.” (Standard, Apr 28, 1888)

### **George Was a Greenbacker “But Not a Fool”**

George’s call for monetary reform is well known as the “Greenback” position. The Plutocracy’s answer has been to continuously finance a two centuries smear campaign against government to raise the fear of inflation under such a system. A fear not really justified by historical evidence, where one finds much greater monetary abuse by privately controlled monetary systems, than by public, governmentally controlled ones. And that is why the study of economics is steered away from the study of history.

In this propaganda campaign the Plutocracy still advertises the 6 – 700 year old cases of monarchs “debasement” their coinage, but never gives the context – that this period of “Kingly Abuse”, took place on the continent after the collapse of monetary order with the fall of Byzantium in 1204 AD. Nor do they point out that much of the alteration in coinage was an accepted form of taxation. Nor will you ever hear that virtually no irresponsible currency changes (save one brief incident with Henry VIII) took place in England during those times. Nor will you learn that Republics generally fared much better monetarily than monarchies; nor do they advertise the much greater monetary disasters created by private bankers during

these same times.

In the more modern period, during times of war, the money power, partly to assure their own survival has stood aside and acquiesced in government issuing money (as in the Revolution, and the Civil War); or issued it in large quantities themselves, if allowed to get away with it (as in WW1 and WW2). In doing this, they could be sure that the resulting production would be blown up or sunk, or be useless, rather than end up as new consumer goods or new production facilities, or improved infrastructure, which would have tended to lower prices, and to have made the population more independent of the monetary miscreants.

This is why warfare has become associated with “getting the economy moving”. But it wasn’t the warfare but the accompanying monetary and production activity that were responsible. We have not seen modern historical situations in the English speaking world where such high levels of monetary activity was directed into real economic production, and not specifically designed 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 in use in our upstate NY home town); and the original all-out NASA effort to reach the moon (which gave us our modern computerization).

In short, the Plutocracy’s inflation theme is mostly propaganda. Consider it for example in light of what you have just read in our (very) brief monetary history of the US. For an extensive description of these historical realities, please see my book *The Lost Science Of Money*.

Louis Post tells how George once answered a question related to this charge – on whether he’d support the government issuing money too freely, with the statement:

“(‘ecclesiastical expletive!’) I am a Greenbacker, but I am not a fool.”

Post lets us guess exactly what the expletive was.

### **George’s Money Discussions in The Science of Political Economy**

At age 58, while still embracing the correct policy for money to be governmentally issued, George’s unfinished attempts to theoretically define money in his *Science Of Political Economy* were not as advanced as his practical conclusions, perhaps because the latter had been empirically nourished.

Remember, in this posthumously published book the final section on money was not complete. George Junior relates that: “if entirely finished as planned...(it) would have shown Book V on Money, extended...but the work as left was, in the opinion of its author, in its main essentials completed, the broken parts, to quote his own words a few days before his death ‘indicating the direction in which my thought was tending.’” (SPE, vii)

But such imprecision is very problematic for monetary questions. They have been for too long, purposely confused and shrouded in mystery. Thus George’s unfinished exposition on money tended to accentuate or reflect the political economists patterns of what he was reading rather than his own final synthesis.

Thus in the first section of Book 5 he describes three concepts of money: First the idea of

commodity money deriving its value from the metal; second fiat money empowered by the edict or fiat of government; and third credit money, used in place of barter.

But by Chapter 6 of Book V, it has been reduced to just two kinds – commodity money and credit; with fiat money being placed under the heading of credit. This disparity in organization is clearly more an indication of the incomplete status of Book 5, rather than loose thought on George's part. And while he gives examples of different kinds of money, and the functions of money he does not really get to a meaningful definition of the essential nature of money, but instead arrives at the following over generalized statement:

“Whatever in any time and place is used as the common medium of exchange is money in that time and place.” (SPE, 494)

But the “time and place” qualifications are really superfluous. So of his 21 word definition, 9 words are unnecessary, and his definition of money reduces to “the common medium of exchange.”

A few pages later the definition becomes

“...we may define money with regard to its functions as that which in any time and place serves as the common medium of exchange and the common measure of value.” (SPE, 502)

Such “time and space” language comes from the “pseudo” monetary arguments he had been reading, such as Menger's ideas on the origin of money, which strive for status by cloaking themselves in the terminology of the physical sciences. George didn't care much for the Austrian School:

“What has succeeded (in place of the classical school) is usually denominated the Austrian School...If it has any principles, I have been utterly unable to find them...This pseudo science gets its name from a foreign language, and uses for its terms words adapted from the German – words that have no place and no meaning in an English work. It is indeed admirably calculated to serve the purpose of those powerful interests dominant in the colleges...that must fear a simple and understandable Political Economy, and who vaguely wish to have the poor boys who are subjected to it by their professors rendered incapable of thought on economic subjects...the volumes for mutual admiration which they publish...”. (SPE, 208)

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

“A LEAP BACKWARD” (headline). “Dr. Von Mises denies not once but several times that his theories can ever be disproved by facts. This point of view represents a leap backward to Platonic Idealism or one of its offspring in various disguises.”

George's “mutual admiration” comment is amusing as this “incestuous” promotion visibly continues through the 20th century. Yet George still couldn't stop Austrian School founder Menger's arguments on money from seeping into his consciousness, for example when George writes:

“...money is the most readily exchangeable (thing)...this ready exchangeability is the

essential characteristic of money.” (SPE, 487)

But to get to the real essential characteristic, George would have had to determine just what it is that makes money so readily exchangeable, and this was not likely to be found by reading the Austrians, or other economic works. Most of them had little or no idea, and those who did obfuscated it.

Still, George’s thought processes remained far superior to those he was reading, and he produced some excellent observations in Book V on money. For example:

### **On Intrinsic Value Being Unnecessary in Money**

Related to distinguishing money from wealth, George saw through the argument that money had to have “intrinsic” value:

“The reason ...the element of intrinsic value may be partially or entirely eliminated without loss of usefulness is to be found in the peculiar use of money. The use of other commodities is in consumption. The use of money is in exchange. Thus the intrinsic character of money is of no moment to him who receives it to circulate again.”(SPE, 520; also see SPE, 496)

And:

“...that the circulating value of money need not necessarily depend on its intrinsic value, must have been clear to discerning men...The fact that coins that had lost something of their intrinsic value by abrasion continued to pass current ...of itself would show that the circulating value of a coin did not...depend on the value of the material it contained.” (SPE, 522-3; also see SPE, 528)

And George understood the broad importance of the quantity factor, for maintaining the value of money:

“What has everywhere caused the failure of innumerable attempts to reduce the intrinsic value of the principal and important coin without reducing its circulating value...(is) that the sovereigns who have attempted it did not, and perhaps could not, observe the necessary condition of its success, the strict limitation of supply.” (SPE, 525)

Georgists should be better able to understand that intrinsic value is superfluous, even a hindrance, in light of George’s accurate distinction between money and wealth. To insist on “commodity money” is to insist on re-defining money as tangible wealth; which is really to do away with the concept of money; and therefore to do away with the institution of money, substituting some convoluted form of hybrid wealth. Highly “inconvenient” to say the least.

### **On the Origins of Money Not Being as Advertised by Economists**

Another important example is George’s perception that the economists were generally “ridiculous” in their endlessly repeated mantra on the origin of money:

“In explaining the origin and use of money, Adam Smith much overrated the difficulties of barter, and in this he has been followed by nearly all writers who have succeeded him...

“Though this explanation of the difficulties attending barter has been paraphrased by writer after writer since Adam Smith, it is an exaggeration so gross as to be ridiculous...The butcher with meat that he wanted to dispose of would not have refused the exchange offered by the brewer and baker because he himself was already provided with all the bread and beer that he had immediate occasion for. ...He would say ...I will give you the meat you want on your promise to give me the equivalent in bread and beer when I call for them” (SPE, 508)

Thus George seems to have independently figured out that the development of credit probably preceded the development of money.

### **On the Importance of Credit Used as Money**

George’s discussions of credit in Book V are noteworthy and well ahead of his time. In addition to understanding how credit could function in a primitive situation he understood how important it was to the monetary functioning of his own day:

“If the use of money supersedes the use of credit in some exchanges, it is only where the use of credit is difficult and inconvenient...” (SPE, 517)

And

“...the great volume of domestic exchange is carried on by the giving and cancellation of credits...the most important use of money today...is that of a common measure of value, its secondary use.” (SPE, 511)

Though I didn’t find George discussing this in detail, his referral to the “giving and cancellation” of credits indicates an awareness of the process that would come to be called the “real bills” doctrine, where a bank issues a credit (makes a loan) to a party based upon a commercial bill which the party has received in the course of selling a product. When the buyer of the product eventually makes his deferred payment, the bank’s credit is extinguished or canceled. The producer has been paid, the buyer has been assisted to make his purchase, and the bank receives its fee or interest, for facilitating the exchange between buyer and seller. In fact an example of a wholesome banking activity.

But this is quite different from a bank extending a long term loan for the purchase of an asset such as land. That process becomes an unstable one, if it becomes a generally accepted banking practice.

But unlike the bankers, George publicly – and forcefully – distinguished credit from money:

“Credit as a facilitator of exchange is older than money and perhaps is even now more important than money...But though it may be made into money it is not itself money...” (SPE, 493)

And:

“...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.” (SPE, 491)

And:

“Thus there is a quality attaching to money...which clearly distinguishes it from all forms of credit.” (SPE, 492)

George well understood one of the main effects of that distinction, which has been “forgotten” by modern economists but which will soon enough be of great concern to our economy once again:

“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 and prevent industrial waste.” (Standard, Feb 11, 1888)

### **On The Extension of Credit to Land Being Unstable**

In the pamphlet Causes Of Business Depression, George’s view, at age 55, was: “...business depression comes from scarcity of employment.”... “land is the source of all employment, the natural element indispensable to all work.... The monopoly of land – the exclusion of labor from land by the high price demanded for it – is the cause of scarcity of employment and business depressions is ... clear...”

Thus bank loans to purchase land, within George’s viewpoint, would be an important factor for business instability, since they would facilitate that monopolization process.

### **On Money’s Essential Characteristic**

This is the defining primary feature of money; the one which ultimately assures its value. Over and over again, history shows this to be money’s legal status, not its material. This doesn’t necessarily mean legal tender declarations, but that a viable government, with taxation powers in a viable economy, will accept the money for payment of all taxes, dues, fees, fines, etc. Time and over again we see that this is the minimum necessary legal provision insisted upon by bankers to be certain their privately created credits would indeed circulate as money. (for example the Bank of England; the 1st and 2nd Banks Of The U.S.; the 1864 National Banking System and the Federal Reserve System)

George fully understood this in practice, if not in theory, when he wrote that government certificates would circulate just fine “if instead of promising to pay anything at all, they were simply made receivable for public dues.” (Standard, Feb 11 1888). George came close to also achieving this awareness in theoretical terms; the disjointed indications from unfinished Book V indicating he was close when he wrote:

that the key is “the disposition to receive (money) as a medium of exchange.” (SPE, 491)

And he acknowledged that:

“...the coining of money has from the earliest times been deemed a function of the sovereign – the seignior or lord – as representative of organized society or the state.” (SPE, 518)

George almost arrives at the answer in the following excerpt. Reading it for the first time, I thought he was describing a possible factual exception to the essential principle of money stated above; but by the end, the specific facts he relates became more a confirmation of the principle than a contravention of it:

“Is money therefore a matter of mere governmental regulation?...can government statute or

fiat...prescribe what money shall be used and at what rate...? (SPE, 488) ...those of us who lived in...California (from)1862 to 1879...(saw) that it cannot. During those years, while the money of the rest of the country was a more or less depreciated paper, the money of that State, and of the Pacific coast generally, was gold and silver. The paper money of the general government was used for the purchase of postage stamps, and the payment of internal revenue dues, the satisfaction of judgments of the Federal courts, and those of the State courts...and for remittances to the East. But between man and man, and in ordinary transactions it passed only as a commodity.”

“If it can be said that the government was not fully exerted in this case; that the United States government dishonored its own currency in making bonds payable and custom-House dues receivable only in gold, and that the California specific contract law virtually gave the recognition of the State courts ONLY to gold and silver, we may turn to such examples as that of the Confederate Currency; as that of the Continental Currency; as that afforded by the Colonial currencies prior to the Revolution; as that of the French Assignats; or to that (example in Ireland).” (SPE, 489)

Today, over a hundred years later, these examples, with the addition of the German hyperinflation, still constitute the economists full arsenal against legally based money. But our discussion of the colonial moneys, the Continental Currency, the Greenbacks and the Confederate Currency demonstrate that these events have not been fully reported to us (we discuss the German Hyperinflation in my book, and the French Assignats in a special report). Contrary to the typical economist’s training, these events were more complex than generally presented and certainly do not constitute an unanswerable argument for placing the control of monetary systems into the hands of private bankers. George cites them because of their endless repetition in the economics books he was reading for so many years.

Henry George continues:

“Shall we say then, as do many who point out this impotency of mere government fiat, that the exchange value of any money depends ultimately upon its intrinsic value; that the real money in the world, the only true and natural money, is gold and silver, one or both – for the metal-moneyists differ as to this, being divided into two opposing camps – the monometalists and the bimetalists? This notion is even more widely opposed to the facts than is that of the fiatists. ...But gold and silver are not the money of the world... As for intrinsic value, it is clear that our paper money which has no intrinsic value, performs every office of money – is in every sense as truly money as our coins, which have intrinsic value; and that even of our coins, their circulating or money value has for the most part no more relation to intrinsic value than it has in the case of our paper money. And this is the case to-day all over the civilized world.” (SPE, 491)

Clearly George was still wrestling with these questions in his own mind. While he accurately identified the monetary system that was needed in practice, he died before fully identifying its theoretical basis. He was close to figuring it out as indicated by his statement that the notion of intrinsically valued money “is even more widely opposed to the facts than is that of the fiatists”, and his realization of the great importance of the “disposition to receive (money)”; the ultimate receiver being the government.

The legal nature of money had been identified by George’s contemporary, the great monetary



historian Alexander Del Mar, but unfortunately he and George were at odds, having squabbled over which of them had conceived the idea that interest arose out of nature's creative forces (Actually the Scholastics had incorporated this concept in their work hundreds of years earlier, and Del Mar too, though exceedingly well read, appears largely unaware of the Scholastics work). The legal theory of money was at that very time being fully developed by George Knapp in his classic *State Theory Of Money*, first published in 1905, after George died.

Had George let the clues lead him to better grasp the legal basis of money, then he would have been in a position to make another truly great discovery which comes from combining that concept of money with his concept on how labor pays its own way. This great potential process would later be understood by John Maynard Keynes, but it has again slipped (or been pushed) out of the national consciousness.

### **George Was Monetarily Consistent to the End**

Demonstrating that George always retained his position favoring a governmentally issued and controlled monetary system, is his *Shall The Republic Live?* article published in the *New York Journal*, the day before the 1896 Presidential election:

"...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."

Henry George Jr., when presenting the article informs us that:

"Since a young man, Henry George had advocated as the best possible money, paper issued by the general government – paper based on the public credit."

Dear Readers, that is still the monetary key today; it has always been the essential monetary issue facing our nation. All Georgists can be proud that he so strongly and consistently embraced it.

### **Georgist Implications for 21 St Century Monetary Reform**

What are the implications of George's thought for present day monetary reform proposals? Lets consider the four main reforms being discussed:

#### **A Gold Standard Reform – Having Money Fully Or Partly Backed By Gold Or Other Commodities**

George derided the idea of digging up ore from one hole in the ground (called a mine) in order to refine and deposit metal into another hole in the ground (called a bank vault):

"We have deliberately substituted a costly currency for a cheap currency; we have deliberately added to the cost of paying off the public debt... We are digging silver out of certain holes in the ground in Nevada and Colorado and poking it down other holes in the

ground in Washington, New York, and San Francisco.” (Soc Pr, 168)

And

“The reason ...the element of intrinsic value may be partially or entirely eliminated without loss of usefulness is to be found in the peculiar use of money. The use of other commodities is in consumption. The use of money is in exchange. Thus the intrinsic character of money is of no moment to him who receives it to circulate again.” (SPE, 520)

These are reasons enough, but there are additional ones to avoid a gold standard. Historically over and over again it has been a method of concentrating a special monetary privilege into the hands of a plutocracy. The misinformation being spread today that a gold standard helps the common man because it stops inflation, misses the point. For labor has suffered far more from deflation or restriction of the monetary system than from inflation, and a metallic based monetary system is essentially a formula for deflation. Under a deflation, it's not labor, but those with money or to whom money is owed, who automatically benefit without giving anything in return. Those in debt are harmed because they must repay it in more valuable money. As the industrialists in a society are often large debtors; industry is thus harmed and this harm is passed through very quickly against labor.

George's early protégé, Michael Flurscheim in 1902 sarcastically observed that “(Gold) – a nice standard of value indeed, which has appreciated almost 100% in the last thirty years!”

Historical experience shows this tends to happen under a gold standard, because gold production has almost never kept pace with population growth, let alone industrial and commercial needs. That is even true of the 1500-1650 period when gold and silver were being plundered by the fleet load from the Americas. Thus the only way to avoid deflation with a gold standard, is by not really having a gold standard and creating leveraged amounts of paper money credits, based on smaller amounts of gold; making the promise of convertibility a fraud, instituting special privileges for bankers and subjecting the monetary system to panics and crashes. But one of the things we learned from the Great Depression, is not to do that again! And of course, it is inconsistent with George's requirements for justice.

A 20th century Georgist, Robert de Fremery made these salient comments on a gold standard in his 1992 book *Rights Vs Privileges*. De Fremery writes:

“The question arises: 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. A population standard (as he described), would obviously give us a much harder money than the orthodox gold-credit system gave us prior to 1933 – and certainly a much harder currency than the money-managers are giving us today.”

And remember, to advocate that money must be a commodity or backed by a commodity is to

destroy the distinction between money and wealth. The control of such a money system remains only in the hands of those with the wealth – by definition, the plutocracy. The very concept of money, and its societal basis in law is undermined.

### **A “Free Banking” Monetary Reform**

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?

The present day call for free banking is among the least informed of monetary proposals yet to be put forward in our nation. It seems that to promote an idea without real examination today all one has to do is put the word “free” into its name. This has even enabled them to ensnare Milton Friedman (who had been resisting) among their tentative supporters.

The strident anti government attitude of many of those promoting free banking has created a prejudice in them to view all regulation as bad and, contrary to our experience and our history, to place their trust in the bankers to act honorably!

George was strongly against granting special privileges to bankers. His direct experience with free banking, which he referred to as wildcat banking, was dismal. For him, and other contemporary professional observers of various backgrounds (Gouge, Knox, Bullock, Sumner) the facts were self evident and universally against the bankers: “The evils entailed by wildcat banking in the United States are too well remembered to need reference... and no-one would now go back to them.” (cited above) Now 150 years later along come the free bankers and say he and the other observers were wrong. Why? Because their theory tells them so. If it seems this section has treated the Free banking concept lightly, that's as much as their arguments presented to date deserve. For a summary of the problems with the argument, please see Appendix 1.

### **Using Local Exchange Trading Systems (“LETS”)**

This alternative is superior to the two reforms above because it does not promote or require injustice as the two above “reforms” do. These 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 exists in many localities. Mainly they enable participants to trade their labor, and some other items, with each other, 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 after a very tight money period. In fact, Henry George was associated with organizing a variant of such a system for Tom Johnson's company in Johnstown. Johnson wrote:

“It was at our Johnstown plant during the panic of the early (eighteen) nineties that we hit

upon a device for supplying the shortage of currency...There were plenty of orders for our product – street railroad rails – but the buyers couldn't pay cash. We called our employees together and explained... that we were unable to command enough currency to pay the full amount of their wages, but that if they were willing to accept a small percentage in cash and the remainder in certificates that we should be able to continue to operate the mill...we were selling rails for such cash payments as we could get and accepting the purchaser's bonds for the remainder....The bonds were to be held by a joint committee of company representatives and working men and against these bonds the certificates were issued....The certificates passed nearly at par and we experienced no serious legal embarrassment... ”

In a separate case, Michael Flursheim formed the Commercial Exchange Company in New Zealand in 1898, which created its own money form, substituting debts between member merchants for cash. They accepted script from one another which had been printed by the trustees. The trustees loaned out the scrip, based on the credit of the participants, with the interest going to cover administrative costs.

The problem is that while these local systems do no harm and can alleviate local cash shortages, they have been of very limited benefit, and generally soon end. For example Johnson's system went out of existence when the emergency faded, and Flursheim's quickly faltered. They will continue to be so limited unless they can qualify as a more true money form. That is, in order for them to really work, taxes (at least local taxes) have to become payable in such currencies. But then one would expect that such currencies would have 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 monetary 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 monetary system. And ending that injustice should really be our monetary priority.

## **Reforming the Federal Reserve System**

Fortunately this is a monetary reform that can reach George's goal for the nation to control its own money system. This is our best and most direct course of action – the real thing – and it could happen this way:

In the next, (or the next) crisis created by the banking system, instead of bailing them out as usual at public expense, if there was enough awareness and public support, our government could nationalize the Federal Reserve; as England nationalized the Bank of England in 1946. Several past Chairmen of the House Banking Committee, including Rep. Henry B. Gonzales, introduced similar legislation over the years.

Reform can begin, even without a complete and detailed blueprint of the ideal money system to be ultimately reached; so long as reform is consistent with the nature of money, and considerations of justice play the major role.

Short term it is crucial to institute enough monetary reform to place time on the side of Justice, instead of against it as at present. Once in charge of the money system, our

government could start to carefully use real, and honest money – modern American Greenbacks – debt free US money to break the near subsistence levels so much of the population is still mired in. For example to re-build the nations decaying roads and bridges; and its deteriorating water and sewer systems; and dilapidated schools and inadequate air traffic control systems; quality low cost housing, and the Internet freeways. In other words the current policies where much of the new money goes into activities that create financial bubbles would be ended. Requiring the commercial banking system to re-adopt the real bills doctrine, as described above, would go a very long way toward improving the nation's financial structure.

Longer term, it would 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 citizenship, the monetary department would probably evolve into a fourth branch of government. In fact that's what it is now, but run for private gain, instead of the common good.

This Fourth Branch would refine and codify its protocols in ever-increasing accuracy; starting from a point of the considerable knowledge and expertise already embodied in the Federal Reserve apparatus. The overall objective however, would be changed. Instead of managing the monetary system for the bankers interests, the goal would be to promote the general welfare, to borrow a phrase from our constitution. Our nation could move into the 3rd millennium in a manner befitting the human race; once again setting an example to the world.

### **Defining the Proper Relation of the Individual to Society**

But in order to effect any meaningful reform, a much needed attitude change is called for. The key is recognizing the proper relation of the individual to society. No doubt some readers are wincing at the thought of instituting the monetary power in our government. Since at least Adam Smith's *Wealth Of Nations*, for over 2 centuries, a poisoning of our attitude toward government has been underway. The stealthy promotion of this self destructive childishness has to be stopped.

In years of monetary research, it is noteworthy that such anti governmental propaganda is intimately connected with monetary proposals. I found it first introduced from England in Smith's writings, and later in cruder attempts from lesser lights like Walter Bagehot with his 1869 proposal for a union of American and British currencies. And even from crackpots like Oxford's Bonamy Price – another English "expert" sent on tour to befuddle American minds. Price, who had been mentally ill, was given Thorold Roger's political economy professorship after Rogers had demonstrated that the economic condition of Englishmen had been declining for over 300 years!

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."

This anthropomorphic view of government – 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. While this anthropomorphism is nonsense, it serves to smear

government as being “motivated” to abuse the monetary system, the way for example that private bankers are.

George had only the very mildest case of “anti-governmentitis”. He saw that the problem was not government, but the abuse of government, and he knew that government had to be a big part of the solution. This disease has now become virulent, especially in the English speaking world. It has reached epidemic proportions in America, requiring as an antidote some of George’s soothing and therapeutic comments on the subject:

### **George on The Purpose of Government**

“The primary purpose and end of government being to secure the natural rights and equal liberty of each, all businesses that involve monopoly are within the necessary province of governmental regulation, and businesses that are in their nature complete monopolies become properly functions of the state. As society develops, the state must assume these functions in their nature co-operative, in order to secure the equal rights and liberty of all. That is to say in the process of integration, the individual becomes more and more dependent upon and subordinate to the all, 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, in the interest of all, certain functions which cannot safely be left to individuals. Thus out of the principle that it is the proper end and purpose of government to secure the natural rights and equal liberty of the individual, grows the principle that it is the business of government to do for the mass of individuals those things which cannot be done, or cannot be so well done, by individual action. As in the development of species, the power of conscious, coordinated action of the whole being must assume greater and greater relative importance to the automatic action of parts, so it is in the development of society. This is the truth in socialism, which although it is being forced upon us by industrial progress and social development, we are so slow to recognize.” (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**

“The government when formed was a great advance over what then existed in Europe, but with that advance we stopped...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 of the growing disparity in the distribution of wealth that we see in this country? First and foremost , the power of government has been deliberately and continuously prostituted to make the rich richer and the poor poorer.” (Standard, Sept 14, 1889)

### **... On Why We Cannot Avoid the Role of Government**

“But it will be said: “if the railroads are even now a corrupting element in our politics, what would they be if the government were to own and to attempt to run them? Is not governmental management notoriously corrupt and inefficient? Would not the effect of adding such a vast army to the already great number of government employees, of increasing so enormously the revenues and expenditures of government, be to enable those who got control of government to defy opposition and perpetuate their power indefinitely; and would it not be, finally to sink the whole political organization in a hopeless slough of corruption?”

“My reply is that great as these dangers may be, they must be faced, lest worse befalls us... Instead of belittling the dangers of adding to the functions of government as it is at present, what I am endeavoring to point out is the urgent necessity of simplifying and improving government, that it may safely assume the additional functions that social development forces upon it. It is not merely necessary to prevent government from getting more corrupt and more inefficient, though we can no more do that by a negative policy than the seaman can lay to in a gale without drifting; it is necessary to make government much more efficient and much less corrupt. The dangers that menace us are not accidental. They spring from a universal law which we cannot escape. That law is the one I pointed out in the first chapter of this book – that every advance brings new dangers and requires higher and more alert intelligence.”  
(Soc Pr,184)

### **... On Some Forgotten Principles of Government**

“(I shall briefly) call attention to some principles that should not be forgotten in thinking of the assumption by the state of such functions as the running of railroads...”

(\* any considerable interest having necessary relations with government is more corruptive of government when acting upon government from without than when assumed by government....

(\* A standing army is a corrupting influence, and a danger to popular liberties; but who would maintain that on this ground it were wiser, if a standing army must be kept, that it should be enlisted and paid by private parties, and hired of them by the state? Such an army would be far more corrupting and far more dangerous than one maintained directly by the state, and would soon make its leaders masters of the state.

(\* I do not think the postal department of the government, with its extensive ramifications and its numerous employees, begins to be as important a factor in our politics, or exerts so corrupting an influence, as would be a private corporation carrying on this business, and which would be constantly tempted or forced into politics to procure favorable or prevent unfavorable legislation.

(\* Where individual States and the General Government have substituted public printing offices for Public Printers, who themselves furnished material and hired labor, I think the result has been to lessen, not to increase, corruptive influences...

(\* The inefficiency, extravagance and corruption which we commonly attribute to governmental management are mostly in those departments which do not come under the

public eye, and little concern, if they concern at all, public convenience ... let the mails go astray or the postman fail in his rounds, and there is at once an outcry. The post office department is managed with greater efficiency than any other department of the National Government, because it comes close to the people. To say the very least, it is managed as efficiently as any private company could manage such a vast business, and I think on the whole, as economically.” (Soc Pr, 185-6)

### **... On Government Efficiency**

“It seems to me that in regard to public affairs we too easily accept the dictum that faithful and efficient work can be secured only by the hopes of pecuniary profit, or the fear of pecuniary loss.”

“All that I have said of the railroad applies , of course, to the telegraph, the telephone, the supplying of cities with gas, water, heat and electricity, – in short to all businesses which are in their nature monopolies. I speak of the railroad only because the magnitude of the business makes its assumption by the state the most formidable of such undertakings.

Businesses that are in their nature monopolies are properly functions of the state. The state must control or assume them, in self defense, for the protection of the equal rights of citizens. But beyond this, the field in which the state may operate beneficially as the executive of the great cooperative association, into which it is the tendency of true civilization to blend society, will widen with the improvement of government and the growth of public spirit.” (Soc Pr, 188-9)

### **... On Why Industrial Development Requires More Governmental Functions**

“I have in this chapter touched briefly upon subjects that for thorough treatment would require much more space. My purpose has been to show that the simplification and purification of government are rendered the more necessary, on account of the functions which industrial development is forcing upon government, and the further functions which it is becoming more and more evident that it would be advantageous to assume. (Soc Pr, 192)

“There is this truth-and it is a very important one- in socialism, that as civilization advances the functions which pass into the proper sphere of governmental control become more and more numerous, as we see in the case of the railroad, the telegraph, the supplying of gas, water, etc. But this is all the more reason why we should be careful to guard against governmental interference with what can safely be left to individual action. In some things our existing system is too socialistic and in others too anarchistic. The proper line between governmental control and individualism is that where free competition fails to secure liberty of action and freedom of development. The great thing which we should act to secure is freedom – that full freedom of each which is bounded by the equal freedom of others.” (Standard, July 30, 1887; also see P&P, 412; Standard, Sept. 24, 1890)

One additional thought – it was a government job as a state inspector of gas meters that allowed George to write Progress And Poverty.

There! Does everyone feel better now? Take 2 aspirin, and re-read this section as needed.



Lest this study be accused of unfairly quoting George, here is one more sentence on this subject that should be noted:

“If it were absolutely necessary to make a choice between full state socialism and anarchism, I for one would be inclined to choose anarchism, preferring no government at all, bad and inconvenient as that might be.” (Standard, July 30 1887)

**Fortunately it never was, and never will be necessary to make that choice.**

### **Integrating George’s Monetary Views into “Georgism”**

How to do this can fortunately be found from within the Georgist movement. His early protégé Michael Flursheim came to these conclusions in 1902:

“Money not land the principle villain - Henry George, his predecessors and disciples, have rendered an invaluable service to the world by clearly demonstrating the part played by land in the process of distribution..(But)...they have not even dreamt (that) Money might (be) the principle villain....doubtless no permanent reform can be accomplished without a through reform of our land laws...Enthusiastic as I ...am for land reform, I have gradually come to see that currency reform is more urgent still...that , in fact land reform could be reached much quicker and easier if money reform preceded, or anyhow were carried parallel with it.”

So we see that our readers are now more familiar with George’s monetary realizations than Flursheim was. Almost a century later Georgist Robert de Fremery, without benefit of reading Flursheim, reached a similar conclusion, and called for both land and monetary reform in Rights Vs Privileges. He combined these two themes because of his view that reform of either the monetary system, or the land taxation system alone, is not sufficient to place human society on the road to justice; that unless special privileges are replaced by fundamental rights in both these areas, the injustice and concentration of wealth spawned in either one, would soon re-establish a corrupt system of privilege in the other.

“Our rights are interdependent. They stand or fall together.” he wrote.

Bob de Fremery also had substantial practical experience integrating monetary and land reform ideas. For several years he taught a course on the monetary side of this at Robert Tideman’s Henry George School in San Francisco. This was well known as the most successful Henry George school in the country. Reportedly more students were annually trained there than at all the other Henry George schools combined! Bob Tideman told de Fremery that he thought one of the big reasons for the school’s success was by offering the monetary course, they were giving the students “twice as much” as the other schools.

Combining monetary reform with land reform will no doubt be considered an extra headache by both Georgists and monetary reformers. But then can either say that they have been happy with their isolated results?

Certainly Henry George deserves the last word here, and if asked, he would probably say: “Our fundamental mistake is in treating land as private property” (Soc Pr, 195)

But he also wrote unequivocally that: “it is the business of government to issue money.”

I want to thank the reader for finishing this report. Your comments and suggestions are very

welcome. I invite you to keep in contact through AMI's web site <http://www.monetary.org> and to explore how we can move forward together. And finally be sure to read my book *The Lost Science of Money* for a much more complete picture of the money problem and its solution. (see <http://www.monetary.org/lostscienceofmoney>)

## **Appendix 1 – Some Problems With Free Banking (excerpted from *The Lost Science of Money*)**

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 miss-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 its a period of increased government regulation:

- A) Bank note issues by banks were restricted to specific percentages of the bank's real capital.
- B) The bank's capital reserves were improved, moving toward government bonds rather than the worthless personal notes of the banks stockholders.
- C) 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.
- E) More efficient systems of bank examination and reporting were established.

Problem #3: Partly because statistics on the banks are very patchy, the free banking advocates have focused on certain measures which 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. Recent history of the crash of 1929 indicates losses through stock markets, from a banking created crisis was about 40 times as much as the direct losses in bank deposits(see chapter 20). It also ignores the effect of the banks activities on the rest of the community.

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 a priori position, they have briefly looked through history for empirical support for their theory. But using history in that manner was 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: Knox, Gouge, Condy Raguet, Bullock, and Sumner quickly come to mind.

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...."

and:

"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.

## **Appendix 2 – The Free Trade Question**

Considering the effect that the free trade ideology had on Georgism from 1888, perhaps some burdens necessarily fall on those who still want to promote this theme, before a modicum of justice and more equitable distribution of wealth has been achieved through land reform and/or monetary reform.

For example, tell us – what does free trade mean, when George would have most utilities, and transports; the largest companies in the country, as government entities? I am told by Georgists that George would never have supported NAFTA – the plutocracy's version of free trade. Perhaps those who want Georgism to move first and foremost on free trade, should be asked to demonstrate empirically, not just theoretically, that this theory deserves front burner promotion, even before meaningful land reform has been achieved. In other words to please "force it to a test of the facts"; examine the record of the past 114 years since George expressed these views, and give examples of how the theory is borne out by the facts since then.

In the US the wealthiest 1% owns over 50% of the wealth, and it's rising. George considered such a situation as highly dangerous and requiring radical solutions:

"A civilization which tends to concentrate wealth and power in the hands of a fortunate few, and to make of others mere human machines, must inevitably evolve anarchy and bring destruction." (Soc Pr, 8 )

And:

"...the political and social problems that confront us...center in the problem of the distribution

of wealth, and ...that their solution may be simple, (but) it must be radical.” (Soc Pr, 81; see also 15, 83, 194)

Wouldn't free trade amplify this problem where well under 1% of the population have the economic means to engage in it? George understood, but then for some reason ignored that before free trade could be beneficial, land reform was needed. I'd also suggest that monetary reform comes before free trade; and that if there were both land reform and monetary reform, free trade reform would be almost automatic. And if not, well won't the next generation need something to do?

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## **About the Author**

Stephen Zarlenga is a 1st generation American, his parents immigrating from Italy during the Great Depression from near Roman philosopher Cicero's home town. He received a diverse education at the University of Chicago, with a degree in psychology. His working life has been in the investment world of mutual funds, real estate, insurance, and professional commodity trading. He has published 20 books on banking, politics and philosophy. In 1990 he began focused research into monetary questions and in 1996 helped form the American Monetary Institute dedicated to the independent study of monetary history, theory and reform. In mid 1999 the German language edition of his book *The Lost Science Of Money* was published by Conzett Verlag of Zurich under the title *Der Mythos Vom Geld – Die Geschichte Der Macht* (*The Mythology of Money – The Story of Power*). The English edition has been released by the American Monetary Institute.

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