

A Call to Democratize Money Part I

by Greg Coleridge

Since its inception, POCLAD has looked at problems, issues and solutions a bit differently than many others. When our collective began a decade and a half ago, we activists were frustrated that conditions on all fronts were rapidly worsening despite heroic efforts by citizens and social movements over time. We felt that "one at a time" campaigns waged against a particular environmental threat, economic harm, or corporate "bad apple" were inadequate in the face of corporations with constitutional rights permitting them to govern.

Laws and constitutions needed changing. Corporations should not be considered "persons" under the law, a consequence of the *Santa Clara v Southern Pacific* Supreme Court decision (1886) that bestowed 14th Amendment equal protection rights on the corporate form and eventually brought it 1st, 4th, 5th and other Bill of Rights protections.

We believed that the issue of corporate personhood was one element of the struggle between public authority and private power, between democratic decision-making on issues affecting people's lives, communities, and the natural world vs. decisions made by a few privileged, propertied individuals and their business corporations.

Self-rule and self-determination have been our beacons; the right to decide about our food and forests, about water quality and energy supplies, about our elections, health care, education, DNA, airwaves, and foreign policy our democratic quest.

Centuries before corporate "personhood" rights, even the US Constitution, a

privileged few and their business corporations were usurping the power of sovereignty, of decision-making authority in one pivotal arena - with profoundly undemocratic, unjust, and violent consequences. That arena was, and is, the creation of money.

The privatization or corporatization of money is not simply one more single-issue assault on the right of citizens to self-rule. Its profound impacts on economic and ecological systems are as consequential as those wrought by corporate constitutional rights and demand its separate understanding, analysis, and prescription.

Huh!

This is the typical response when one raises the issue of "monetary" policy. An astonishing lack of awareness exists in our nation as a whole, including among most social change activists, on questions of money and its creation. What is money? What are its purposes? Where does it come from? How does the volume in circulation affect our economy? Should it be publicly controlled or left to the "free market?" How does its creation relate to self-governance?

Many citizens and activists spend a great deal of time educating, advocating, lobbying, and organizing on matters of "fiscal" policy - how and where to spend tax dollars. We devise all sorts of ways to make our local, state, and federal budgets more sane and humane as we work to shift funds from militarism and corporate subsidies to social and economic justice programs.

But "monetary" policy is mysterious, secret and confusing. We don't teach what it is or its critical importance. We don't advocate and lobby for just and democratic changes. We don't organize social movements around it. We know so little about it we don't even know the right questions to ask.

Historical struggle over money creation

Monetary historian Stephen Zarlenga, author of *The Lost Science of Money*, says the story of money is also the story of power with secular authority of all societies defined mostly through their monetary and banking systems.¹ Two major, interrelated questions have dominated the history of money:

1. Should money have intrinsic value (like gold or silver, or at least be backed by them) or should it be "fiat" - anything that becomes money once declared by a government to be legal tender?
2. Should the creation of money be controlled by governments or by private entities?

Ancient societies that first advanced beyond simple barter used grains, animals and tools as currencies. Mediterranean societies between 1500 BC and 1000 BC shifted from cattle to gold as currency.

Religious temples accumulated a large proportion of gold over time from donations, bequests and fees. It was the Greek temples that first "monetized" gold - issuing a fixed amount equivalent to one cow. Since they held the majority of the gold supply, the temples created an instant value for their new "money" by accepting it for their array of services (food, land, storage, etc.). Money became as much a

source of power and control as a basis for economics.²

The Chinese in the east and Greek city-states in the west were the first to issue metal (gold and silver) coins as money. Their value was determined by the state - separate from the metal's worth as a commodity. The Spartan leader, Lycurgus, was the first to issue fiat money in the 8th century BC. It was made of iron discs without any intrinsic value. Other Greek city-states and Rome's early leaders (using bronze) followed suit. Aristotle declared, "...Money exists not by nature but by law."³

For more than 1200 years, "coining gold was regarded as the exclusive prerogative of the supreme sovereign" by the Roman Empire. "Infringements upon this power... were met with death or warfare."⁴ "Creating money was not simply creating tokens of exchange but was a sign of ultimate sovereignty.

Venice stamped leather and used it for money in the 12th century to pay soldiers. After the Caesars fell in 1204, local rulers throughout Europe began minting their own money. That process became most centralized in England by the Crown and affirmed by the courts. The *Mixt Moneys* legal case in 1604 concluded: "The sovereign, or those licensed by him, has the authority to create the money of his dominions, and it is treason for any other to do so." Coinage was minted, as was a kind of fiat money by Charles II in 1667 to pay for state expenses, including the Dutch War.

Most of the history of money creation is unknown. Political economist and historian Alexander Del Mar affirms, "Of all the elements of political economy, money is the chiefest; of all the institutions of money, the right to create it is the most important; yet not a word concerning this once sacred right by the state is to be found in any of the economists."⁵

Private interests controlling money and its creation have been numerous, diverse, and powerful throughout history. In addition to the aforementioned Greek temples,

religious sources included Popes who made loans until the Church enforced a ban on usury and Jewish moneylenders. The Knights Templar, formed in the 12th century during the first crusade, were a secretive high-powered group who eventually ran the depository of the French treasury, made loans to the French and English crowns, and became so economically powerful that their charter was dissolved and members arrested on orders of King Philip of France.⁶

Banks arose first in Catalonian Spain and Genoa around 1200 AD. Catalonian banking law kept moneylenders on a short leash: "No moneychanger who may fail, and none who has recently failed or in times past failed, shall again keep a bank or hold any office under the Crown... Until he shall have satisfied all demands, he shall be detailed on a diet of bread and water." Punishment for bankruptcy was clear-cut. "They shall be beheaded and their property shall be sold for the satisfaction of their creditors by the Court."⁷

Venetian banks were started to provide loans to the government following its involvement in three Crusades. Large banks, connected to particular families, arose in Italy, Germany, and Holland. A few public banks were formed, most notably in Amsterdam, where all profits belonged to the city, sending an unspoken message to private interests to focus on commerce and industry and not money-changing.

The Bank of England, chartered in 1694, despite its name, sought to concentrate private financial power into few hands. Its creation followed intense pressure from financial interests and the British East India Company, passage of the Free Coinage Act of 1666 overturning royal sovereignty over money, nullification of the *Mixt Money* case, and contrived commercial disasters and foreign wars (a similar rationale in countless other nations) that forced the state to seek private funds. Opposition to the bank came from those inside and outside of government who felt it would become the bank of the state but not controlled by it. Nathan Rothschild declared, "I care not

what puppet is placed upon the throne of England to rule the Empire on which the sun never sets. The man who controls Britain's money supply controls the British Empire, and I control the British money supply."⁸

Banks (then and now) amassed tremendous power, in part by literally creating money out of thin air as debt - crediting on their books loans provided well in excess of the amount in their vaults. The standard ratio was 10:1, but sometimes far greater. This "fractional reserve banking" scheme meant that for every unit of gold (today it's paper cash) in their possession, they could loan out 10 times or more in paper checks. When the principle, plus interest, was returned, that amount became the new floor. The scheme enriched banks and bankers at the expense of people... and nations, creating what Ellen Hodgson Brown calls a "web of debt." It also usurped sovereignty. "In many ways this was a monetary power greater than the King's control over the mint. This bank money was a more true fiat money form and further removed from crude barter than the "precious metal" coins. But the bankers were usurping a power that derives from and belongs to society, and using it for personal benefit."⁹

The other source of financial power was basing money creation (whether publicly or privately issued) on gold. Whoever held gold held power. If only so much money could be issued based on the amount of gold in their possession, there were insufficient funds available to facilitate trade and commerce. Recessions and depressions may, and did result, especially when banking corporations hoarded gold or silver.

The US Story: Revolution through Civil War

The US has been a monetary laboratory since the beginning.

The American colonies were a utopian experiment with individual colonies issuing and exchanging paper money since English pounds were in short supply. Colonial money, initiated by

Massachusetts, wasn't backed by gold or silver, only by the "full faith and credit" of the government - fiat money. Benjamin Franklin, considered the "father of paper money" and responsible in part for the economic success of Quaker-led Pennsylvania, commented: "The riches of a country are to be valued by the quantity of labor its inhabitants are able to purchase and not by the quantity of gold and silver they possess."¹⁰ The colonies remained free of British bankers with their gold and interest, allowing their governments to be financed without taxing the public. They both lent and spent money into circulation for essential services, which prevented inflation.¹¹

King George outlawed colonial money in 1751. With only British money in circulation, the economy and people suffered. Franklin and others claimed this was the real reason for the Revolution. The first act of the Continental Congress was to issue its own paper scrip, the Continental - IOUs to be redeemed for coinage later.¹² The revolutionaries won their war against the major superpower of the day financed by their own money and without taxing the population. The inflation associated with the Continental was due in large part to British economic warfare of flooding the colonies with massive amounts of counterfeit Continentals.

The US Constitution gave Congress the power to "coin money, regulate the value thereof..." Congress has from the start abdicated its responsibility.

Two years after the Constitution's ratification, Alexander Hamilton and his financial backers successfully pushed through a bill to create a national bank as the way to pay off the Continental IOUs. Jefferson and others resisted, fearing that the private central banking corporation operating behind closed doors and driven by motives of profit would serve the interest of its stockholders instead of the government and people who were in debt.

Jefferson said, "If the American people ever allow the banks to control the issuance of their currency... the banks and corporations that will grow up around

them will deprive the people of all property, until their children will wake up homeless on the continent their fathers occupied."¹³ When the bank charter was not renewed, it was discovered that foreigners, mostly English and Dutch, owned 72% of the bank's shares. Jefferson called for creating a publicly owned national bank that could issue its own money.

Nathan Rothschild reportedly threatened in 1811, "Either the application for renewal of the Charter is granted, or the United States will find itself in a most disastrous war."¹⁴ The next year, 1812, the US was at war with England, leading to more debt and inflation - the consequence of virtually all wars when money is borrowed from private banks. This led to the charter of the Second Bank of the United States, another corporate central bank - shifting the power to create money, once more, into private hands.

Andrew Jackson supported public creation of money: "If Congress has the right under the Constitution to issue paper money, it was given them to be used by themselves, not to be delegated to individuals or to corporations."¹⁵ He vetoed a bill to re-charter Second National Bank, 80% of which was privately owned, calling it "...a den of vipers and thieves."¹⁶ The bank president threatened economic ruin if the bank wasn't re-chartered, then followed through by sharply contracting the money supply and stopping the issuance of loans (sound familiar?) causing financial panic and a deep depression. Jackson paid off the national debt in 1835 to zero, the last time this has happened.

The Legal Tender Acts passed under Lincoln created the nation's only truly democratic fiat money, the Greenback. It was government issued and controlled, not connected to banks (which US and European bankers detested) nor tied to gold or silver. Greenbacks not only financed the Civil War (against the British financed south), but avoided impending bankruptcy and provided direct funding and cheap credit which helped build the continental railroad and steel industry; establish the Department of Agriculture,

the Bureau of Mines and Western territorial governments; facilitate Land Grant Colleges; support scientific research and the reorganization of the Judicial system.¹⁷ The \$400 million issued, if borrowed from private banks, would have cost the government \$4 billion in interest. It also provided government the authority to decide where money would be spent rather than pleading with corporate banks for loans.

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Part II will complete the US historical story from the Populist era, through creation of the Federal Reserve, and US depression to the present time of bank bailouts, US indebtedness, and financial control of the state. It will also address specific means to "democratize" money and, by doing so, "democratize" governance and address the massive economic and environmental problems we face. Finally, it will speak to the need (and steps required) for a national movement to democratize money.

Notes

¹ Zarlenga, Stephen, *The Lost Science of Money: The Mythology of Money-The Story of Power*, American Monetary Institute, New York: Valatie Press, 2002

² Zarlenga, p. 16-19.

³ Zarlenga, p. 9.

⁴ Zarlenga, p. 83.

⁵ Zarlenga, p. 270.

⁶ Zarlenga, pp 146-9.

⁷ Zarlenga, p. 159.

⁸ Brown, Ellen Hodgson, *Web of Debt: The Shocking Truth About Our Money System And How We Can Break Free*, Baton Rouge: Third Millennium Press, 2008, p.63

⁹ Zarlenga, p. 162.

¹⁰ Brown, p. 36.

¹¹ Brown, pp. 35-7.

¹² Brown, p. 43.

¹³ Brown, p. 74.

¹⁴ Brown, p. 75

¹⁵ Brown, p. 78.

¹⁶ Brown p. 78.

¹⁷ Brown, p. 82.

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By What Authority (ISSN: 524-1106) is published by the Program on Corporations, Law & Democracy. The title is English for *quo warranto*, a legal phrase that questions illegitimate exercise of privilege and power. We the people and our federal and state officials have long been giving giant business corporations illegitimate authority. Today, a minority directing giant corporations and backed by police, courts, and the military, define our culture, govern our nation, and plunder the earth.

By What Authority reflects an unabashed assertion of the right of the sovereign people to govern themselves.

POCLAD is a group of 11 people instigating democratic conversations and actions that contest the authority of corporations to govern. Our analysis evolves through historical and legal research, writing, public speaking, and working with organizations to develop new strategies that assert people's rights over property interests.

BWA is a tool for democracy proponents to rethink and reframe their work. To that end we encourage readers to engage us with comments, questions, and suggestions.

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