Money in America: The Struggle for Restoration and After

Introduction

Something happened to the American understanding of money and banking. A special understanding of money emerged, which grew from the roots of the republic's founding, defined the country’s political traditions for over a hundred years, and then disappeared.

The United States began as an essentially rural and agriculturally-producing nation, and within the agrarian political tradition that developed alongside the nation's own maturation was an understanding of money that set the United States' history apart from others. This had everything to do with its democratic founding. Whereas others received their ways of living from the authority of the past, Americans had the novel privilege of deciding their own fates. They were the first to apply the faculties of human reason to the task of national self-governance in a democratic sense, and foremost among the duties of self-governance was the way that the monetary system would be structured. The relevant problems were: how the units of the nation’s purchasing power (i.e. money) would be created and destroyed, and what facilities of saving, payment and lending would be provided for by law. The American people were confronted by a political decision: what should the nature of the national money be?

In Europe, and in contrast, such questions were decided in a smooth and apolitical quiet. In the beginning they were decided by default by noble and mercantile interests, and were then received in following generations as inherited traditions. Only a select group of people in Europe could make political decisions, and the rest of the population were effectively, for political purposes, non-entities. But in the United States, little people counted for something, and because money is an inexorably political creature, rational proposals for a monetary system had to be put forward and defended in the arena of public debate.

This meant that, for those who wanted to give private banking corporations the privilege of creating and destroying the country's money, they had to present their designs in Congress and defend them from rational criticism. By and large, the advocates of the rights of banks to arrogate the privilege of creating the nation's money have been successful in their mission. But what made the United States' history special was that, for a long time, many of its citizens strove to controvert – and even defined their national identity with this struggle – the monetary system in which the country's money was a creature of private banks. No other people in modern history has this struggle, centered on the nature of money, configured so integrally as a core feature of their national self-understanding. Coincidingly, no other people had a moment of such conscious and freestanding engagement with the form of their own destiny as early Americans did. The fateful decisions made in the years immediately following revolutionary victory were contested time and again, dragged back-and-forth to opposite horizons, as the ways and worlds of each position's advocates would disintegrate upon the adverse decision of this all-important question.

But today this distinguishing feature of American history is largely forgotten, and drawing the full historical continuity back into relief requires some piece-work. It is so lost that the creation of money by private banks is scarcely understood, and if it is, it is not generally understood as a political decision, but more like something of a default setting, as if it came directly from nature or divine mandate. Economics textbooks in the 1950s (e.g. Paul Samuelson’s Economics) advanced a novel explanation of banking in its power to create money in which it was really only the central bank that had exclusive money-creation powers. The private banks, in turn, merely lended out fractions of the money the central bank had created for them, while keeping a residue as a reserve. This system was given the label of ‘fractional-reserve banking’ and its purported mechanism for monetary expansion was the ‘money-multiplier’. But these labels were misnomers, and the story put forward by Samuelson was false. Although the central bank did exert a powerful influence over the banking system, banks were not primarily fractional-lenders of reserves; they were, and continue to be, money-creators. This misconception effectively helped to confound the American understanding of the monetary system.

The forgetting occurred soon after America's emergence from the Second World War as the sole undamaged power, and thus the guarantor of world order. A number of beneficent economic effects attended this new position and the monetary problems that earlier seemed so important faded to the background. A new national identity was created during the war and the previous one, to which belonged the authentic agrarian position on money, was now conspicuously out of place.

Compounding this problem, big political movements in 20th century America – at first with the New Dealers of the 1930s, and then with the Cold Warrior conservatives of the post-war period – used much of the rhetorical and aesthetic trappings of earlier agrarian movements in order to mobilize their constituencies for political purposes, but also carried on a negation or inversion of 19th c. agrarian politico-economic substance. In other words, the vehicles which appeared to carry on the continuation of agrarian tradition into modernity in reality carried out its extermination. And because they so convincingly appeared to be the affirmation of those agrarian principles, nothing was left over to uphold and cultivate said substance, stripped as it was of its banners in the aftermath. Much of this hinged on confusion over concepts within economic thought, monetary theory in particular.

The main thrust of this book is in substantiating the following groups of points: 1) money is inexorably a creature of political decisions, the bank-internal monetary system we inhabit is itself a political decision, and this has been overlooked by American academia; 2) different types of monetary systems have their own peculiar behaviors and outcomes that are ‘baked in’ as predictable consequences of their premises; 3) many of the economic problems today originate from within our monetary system, whose inner workings have become unknown to the populace at large, and even to many well-educated people whose business it is to know the monetary system; 4) and that resolutions to these problems could be found in an overlooked past. This book could be categorized as a telling of the politico-economic history of the American monetary system from a greenback-friendly perspective, which sees the yeoman – the small landowning farmer – as the forgotten protagonist of American history.

It is possible that, for the reader up to this point, all of this has little to no meaning. In order for it to be meaningful at all, some legwork in the way of economic theory is required beforehand. It is necessary to put forward arguments on: 1) the nature of the monetary system, 2) the nature and substance of economic processes, and 3) how money fits into these processes.

The thrust of this book has changed over the course of its writing. In an earlier version, it would have been a collection of arguments on the way that accepted economic theory evolved to its present form today. While retaining some of those elements, it has changed in order to point to a more focused argument on the monetary system, and on the conspicuous absence of the agrarian tradition’s ideas in the public mind amid today's economic realities, themselves in large part *a result* of that absence. Things could have turned out very differently at many points along the historical way, and the task of this book is largely to examine the forks in the road behind us and the turns not taken.

The first two of the book’s four parts deal with the basic components of macroeconomic theory. These components are basically the analysis of: 1) economic dynamics and 2) economic statics. Put another way, they are investigations into the principles governing: 1) economic growth, and 2) the income-distribution within that growth. With these in hand, it becomes possible to look at an economy and start to engage with the nature and substance of its trajectory. It was deemed necessary to establish these beforehand in order to present an effective argument on the monetary system.

This first half also deals with the way in which these components of macroeconomic theory came to be what they are today. In dealing with the evolution of economic theory over the past two-hundred years, it may reach in making judgments on the errors of the great economists of the past. In the writer's defense, however, it's worth asking: what is economic theory?

An economic theory is an abstract logical story of economic characters acting in accord with their own self-interest, while being held subject to a framework of assumptions suspended in place in an economist's imagination. The two building-blocks of a logic-story are: (1) assumptions and (2) the reasoning that follows on the basis of those assumptions. Unfortunately, economics is a field of social science in which logically *proving* a certain conclusion is not really possible; there is just not any epistemological grounds for it. The best that anyone can do is to start with reasonable assumptions that faithfully map out onto the general experience of the real world, apply a solid line of reasoning from there, and then, having created this logic-story, seek out the evidence in the real world that either corresponds with or deviates from what the logic-story predicts. In other words, by constructing and navigating a semi-realistic hypothetical scenario to discern what is true in the abstract and in principle, the insights thus gleaned can be applied in the particular (i.e. to the real world). If all this goes well, one can appeal to the common sense of one's colleagues and hopefully convince them that their position is right. But since there isn't really a way to prove an economic logic-story, and thus no way to put a problem to rest, argument and discord have been the general rule in the history of economic thought. Economic theory unfortunately but fundamentally resolves to a question of worldview – if two economists have irreconcileable worldviews, the prospects for fruitful discussion between them are dim. Since economic theory is essentially a manifold tradition of logic-stories of varying plausibilities from different worldviews, it should not be thought to be above criticism. That being said, in the writer's opinion, some are more plausible than others.

Von Clausewitz once wrote that, "War is simply the continuation of political intercourse with the addition of other means." This statement can be interpreted to mean that war and politics are just two subcategories of the parent category of conflict. Conflict entails strategy, and strategy entails deception. Thus, where matters of state are concerned, one should be open to the possibility that people say things that they don't fully mean, or don't say things that they do mean, in order to obtain a strategic advantage for the interests of whatever faction they represent.

Economy is, without a doubt, a matter of state. With that in mind, it should not be out of the question to suppose that certain inaccuracies or obtusities in economic thinking have been allowed to persist for reasons of organized self-interest. Nor should it be inappropriate to re-investigate the evolution of economic theory with the possibility that important 'load-bearing' parts of it were in error. This is not to put accusations of ill-will at the center of our investigations, but it is to say that the persistence of dogmas, possibly erroneous, across generations of scholars and educated people should not only seem possible but positively unsurprising. What is human history if not a record of error? In other words, this book is for people who believe that it is possible for important things to be forgotten, and that the present moment is not necessarily the accumulated result of past perfections.

The last two parts of the book's four parts make up the core. These contain primers on the principles of (a) monetary theory and (b) the economics of international finance and trade, which respectively preface two important stories. The first is a story of conflict in American history over the nature of the monetary system, dating essentially from 1790-1896. American yeomanry was locked in an hundred-years struggle over the following question: 'Should the nation's money be created by banking corporations? Yes or no?' The prize of this contest was the power to shape the ways and ends of life. It fell from the yeoman's reach and into the grasp of parties with ambitions that ranged far beyond the soil. As developments in the 20th century saw the yeoman's vision fade away, parts of his story were sterilized, truncated, and repurposed while others were discarded entirely. Americans today suffer an amnesia of this once-vital current.

The second is the story of an offshore dollar-financial system and its associated business practices that grew and evolved outside of public view. This offshore system, commonly known by the counter-intuitive label of ‘the Eurodollar system,’ ultimately became a full-fledged monetary system (i.e. a system that creates purchasing power *ex nihilo*), and not only that, but the monetary system backing all the world’s separate, national, and ostensibly central-bank-backed monetary systems. In the course of this transformation, it completely changed the mode of money-creation in an unprecedented break from monetary conventions. This break had, and continues to have, radical and still largely-unseen implications for central bank policy. The unannounced revolution in the mode of money-creation has been so radical that many still thinking in terms of old systems carry on with a view of how the monetary system works today that is, in important aspects, effectively a ‘photo-negative’ understanding of the reality. Insofar as we observe the American agrarian ethos of self-governance and self-respect, we are compelled to develop a more accurate picture of today’s monetary system by documenting these changes.

It may occur to the reader, over the course of reading the portion of this book devoted to early politico-economic issues in American history, that the author is taking a sympathetic position toward the Democratic party in the 19th c., and that conspicuously little mention is made either of its racial politics or its commitment to slavery, both of which played such a big part in the life of the Democratic party. It may be well to comment on that apparent omission here.

This is not meant to be a general history, but a narrowly-focused history on the politico-economic problems revolving around money in the United States. It is true that the 19th c. Democratic party's thinking on money was a significant spur toward the writing of this book, but the sympathetic light cast on that topic should not be interpreted as an unconditional endorsement of the Democratic party itself.

If there are any constants throughout human history, they are strife, toil and violence. People often find themselves at the center of conflicts that are none of their choosing, and, being faced with determined adversaries, resort to measures of defense (or offense) that they would find unsavory under conditions of peace. This often means compromising on one's morals for the sake of survival. Ideals are left to the side, while whatever resources that are ready at-hand are brought into use. Just as individual human life is often defined by these conditions, the life of political and business organizations and networks are too. The pressures of conflict and survival are nudging us always toward things that are expedient in the immediate moment, but not necessarily good, and so where conflict pervades every sphere of human endeavor, high and unconditional ideals can take root only as their cultivators accept their own crucifixion. So we should not look back on history and expect to see continuous political lineages of always-righteous and always-victorious protagonists.

In spite of the fallenness of the world, agents of moral good continue to spring up within it. Selfless ideals do strain to come into being, and so the highness of ideals and the lowness of strategy and survival are everywhere co-mingled in human hearts in a way that makes untangling difficult.

The author is not asking the reader to put their sympathies with the 19th c. Democratic party, nor to forget that it was the party of slavery. He does ask, however, that the reader take that thought and suspend judgment long enough, in light of the world’s imperfection, for a parallel story to be told, as it may still have important implications for the present. If we are satisfied with condemning the past wholesale, we also risk losing control over our own futures.