The Lost Science of Money

Review by Todd Altman

Stephen Zarlenga's groundbreaking book *The Lost Science of Money* explodes various myths surrounding both the history and nature of money, and proposes what I believe is a long-overdue reform of our monetary system. Zarlenga sets the stage early on when he writes:

> *The thesis of this book is that a main arena of human struggle is over the monetary control of societies and that this control has been and is now exercised through obscure theories about the nature of money. If it had to be summarized in one sentence, it is that by misdefining the nature of money, special interests have often been able to assume the control of society's monetary system, and in turn, the society itself. Describing how this has been done historically will make these concepts vital, and hopefully sweep aside the mystification in which money has been purposely shrouded. Guidelines for monetary reform are then presented, to end the private control of monetary systems and instead assert the public societal role to control money under the rule of law, rather than the whims of men.*

With this thesis and purpose in mind, Zarlenga takes the reader on an exhaustively researched historical journey, beginning with an examination of how money functioned in ancient societies, and progressing through time to the present day. Among the key findings of Zarlenga's analysis are:

✳ Early Rome's bronze money was based on law, meaning the value of bronze currency "was a legal concept, not a market one, and depended on the limitation of its issue". This law-based bronze money served Rome far better than the privately-controlled gold money that followed it.

✳ "The 'commoditization' of Rome's money system dramatically accelerated the emergence of a plutocracy — a ruling order based on wealth".

✳ The combined evidence on wealth concentration, the absence of mining, the normal erosion of coinage through usage and the tendency of precious metals — especially silver — to flow eastward, presents a powerful argument that an inadequate supply of circulating medium — of money — was a major factor in the continued decline of the Roman Empire. "Behind that scarcity, ultimately, was a huge error in monetary theory, that some ideologies still make today — the false belief that money should be a commodity or economic good; that is, wealth, rather than a legally based abstract power".

✳ "Historical evidence indicates that nations and Empires did set the gold/silver ratio, based on the amounts they had, but exactly the opposite to the predictions of 'free market' theories. In setting the ratio, a strong nation would raise the value of the metal that was most abundant!".

✳ Continental Currency is the key reason why the *(continued on page 37)*

 (continued from page 27)

American revolution was ultimately successful. The inflationary impact it had had on prices was largely the result of "massive British counterfeiting" — a fact that is conveniently ignored by advocates of "hard-money" (i.e., privately-controlled commodity money).

⁕ The debt-free Greenbacks issued during the Civil War were "probably the best money system America has ever had", and would have functioned even better if they been made receivable for the payment of both import duties and interest on government bonds (gold was required instead), and would have functioned better still if they had been issued for the production, rather than destruction, of public goods.

⁕ The hyperinflation that plagued Germany in 1923 followed "the complete privatization of the German central bank and elimination of governmental influence on it" — the very thing hard-money advocates insist will always protect a nation against hyperinflation.

Zarlenga makes a compelling argument that most of the world's economic problems are heavily rooted in the inherently corrupt nature of debt-based, privately-controlled money systems. Under these systems, private banks are allowed to extract enormous amounts of wealth from the global and national economies in exchange for the nothing out of which they create the money they loan.

Zarlenga advocates a three-pronged approach to monetary reform:

1) Make government (as opposed to private banks) the sole issuer of money, and require that all money be issued free of debt — preferably for the construction of public goods that everyone can see and benefit from, such as roads and bridges.

2) End fractional reserve banking and institute in its place a 100% reserve system — a system in which banks could continue to lend money that has been deposited with them for that purpose, but (unlike now) would be prohibited from creating money out of nothing the moment a loan is made.

3) Institute "anti-deflationary programs" to offset the impact of restricting the power of banks to create money. As privately-issued debt-based money is phased out of circulation, ensure that enough government-issued debt-free money is phased into circulation to replace it — that way the transition period can proceed smoothly, without jar or shock to the economy.

Though Zarlenga repeatedly stresses the importance of guarding against deflation, he also makes it clear that he does not advocate erring in the opposite direction. To prevent both deflation and inflation, he proposes that the debt-free expansion of the U.S. money supply be regulated in accordance with population figures, industrial production, and other measures. (To this I would add that — to ensure that government control over money-creation is not abused — it would be necessary to reassert the public's control over government, through such measures as ballot access reform, instant runoff voting and proportional representation.)

By advocating the institution of a debt-free fiat money system, this book is sure to offend both debt-money and hard-money advocates alike. Debt-money advocates will be offended because it calls for eliminating the power of banks to engage in fractional reserve lending (i.e., to loan money they don't have and charge interest on it). Hard-money advocates — who tend to oppose fractional reserve lending — will be offended because it defines money as a legal concept instead of a commodity, and because it calls for the power of money-creation to be placed in public rather than private hands. Those who sense something wrong with both debt-money and hard-money systems, however, will likely find this book to be a breath of fresh air.

The Lost Science of Money is an absolute must-read for all Americans. Why? Because nothing touches our lives more than money, yet very few of us know much about either the history or nature of money — what little we do know being heavily influenced by the myths and half-truths propagated by debt-money and/or hard-money advocates. This book will help change all that. GJ

Letters

(continued from page two)

Let's Not Be Masochistic

Julien Gross seems to attribute the stagnation of Georgism to its adherents keeping to themselves and not trying to reach outsiders. I question this.

There are other serious factors operating:

1) The pressure of powerful vested interests in the media, Parliament and elsewhere.

2) The influence of academia — as illustrated so well in Mason Gaffney's *The Corruption of Economics*.

3) The influence of the taxation "industry" — the illusion that we need our current taxation to bolster civilization.

4) The deadening influence of most of the media that overloads us with entertainment, stifling serious thought. Universal literacy has not been a panacea.

Georgist literature and other efforts no doubt could, in hindsight, have been better, but let's not be too masochistic! And let us not underestimate the powerful influence of the beneficiaries of the status quo.

— Geoff Forster, Canterbury, Victoria, Australia