Review of Robert De Fremery's "Rights vs. Privileges"

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An Analysis Of Two Powerful Privileged Interests That Have Deprived Us Of Fundamental Rights

Provocative Press, 128 pages, quality paperback. Available from AMI at $25 per copy, postpaid.

Reviewed by Stephen Zarlenga

For the last 5 decades, Robert De Fremery has been one of the most consistent forces for monetary reform in America. Though not generally known to the public, De Fremery's persistent correspondence with Federal Reserve authorities, and nationally known economists has had a lasting influence upon many of them. His ideas on one hundred percent reserve banking and increasing the money supply in proportion to population growth, have appeared over the years in prestigious financial journals, as well as in his previous book MONEY AND FREEDOM.

De Fremery's lifelong concern has been how the rights of all Americans have been sacrificed in the name of awarding two special privileges to a tiny minority. These two privileges are the specially favorable tax treatment of landholders, and the monetary powers of bankers.

In his book RIGHTS VS. PRIVILEGES, he elegantly and simply presents "An analysis of these two powerful privileged interests that have deprived us of fundamental rights."

Why has De Fremery combined these two themes into one volume? The key to his presentation is his view that reform of either the monetary system, or the taxation system alone, is not sufficient to place human society on the road to justice. According to De Fremery, 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 writes.

THE LAND PROBLEM:
De Fremery approaches the question of land taxation from the point of view of the Henry George school. He explains how the problem arises:

“The increasing value of land resulting from the growth of each community is in no sense created by the productive effort of each title-holder. The land that is most favorably situated will have the highest value regardless of who holds title to it.

“Thus a man who contributes nothing to the community in which he lives – a man who produces nothing and performs no useful service to society – may, nevertheless, have a steadily increasing income because he holds title to a piece of land in the center of a growing city…the rental value of his land will steadily increase as the community grows. That is what is meant by a publicly created value. It is created by the community as a whole and exists independently of the productive activity of the landholder.”(p.23)

According to De Fremery, when the community does not claim this publicly created value, through proper land taxation, the community is forced to institute numerous unfair taxes on privately created values – sales taxes, home taxes, income taxes, etc. This shifting of the taxes from those who can and should pay, to others, is having the effect of eroding the middle class financially, concentrating ownership and power into fewer and fewer hands, and destroying the moral fiber of both groups. In addition, it promotes a poor allocation of resources, and has encouraged speculation and hoarding of land, forcing land prices up, thereby restricting new construction.

THE LAND SOLUTION:

De Fremery says the solution to the land problem is found in the principles enunciated by Henry George, and requires modifying property taxes to fall on the unimproved site value of land; and to increase that tax until it reaches the rental value of the land. At the same time, he would abolish taxes on buildings, homes, incomes, sales, gasoline. etc.

“The rental value of this country rightfully belongs to all of us – share and share alike. After collecting that value from each landholder, we could have the government distribute it equally to all of us. If instead of that, we all agree to leave our equal shares with the government so that no other taxes need be levied, then we’ll each be contributing the same amount toward the cost of government.” (p.9)

This single tax policy is based on three points:

1)The site value of land is a creation of the community, not of the landholder.

2)A tax on the site value cannot be shifted to renters.

3) Such a tax is burden-less. The community is merely recovering a value it has created.

De Fremery points out that Henry George’s ideas on land taxation have never been refuted in the 130 years since he formulated them; he quotes Tolstoy: “The chief weapon against the teaching of Henry George … was that of hushing up.”

MECHANICS OF COLLECTION:

The question arises: How would Federal, state, and local governments collect the rental value of land?

” The practical answer is that we should return to the constitutional provision that requires our Federal government to apportion direct land taxes among the states according to their respective populations. The states in turn should obtain this revenue and the revenue for their own support by apportionment among their counties, in the way Nebraska, Texas, Montana and a number of other states still do. The counties as agents of the states, should collect their revenue, and the revenue needed by state and Federal governments, from the rental value of their lands, using existing property tax collection machinery. These changes would reverse the trend of the last 50 years. Instead of lower levels of government becoming increasingly dependent upon higher levels of government for aid, thereby losing their independence, the higher levels of government would return to dependence upon the lower.” (p.39,40).

As to the justice of these actions to existing large landholders De Fremery asks: “Was an injustice done to slave-holders when the slaves were freed?”(p.15)

THE MONETARY/BANKING PROBLEM:

FRACTIONAL RESERVE BANKING AND BORROWING SHORT TO LEND LONG

De Fremery zeros in on the primary structural flaws of our monetary system, which have, and continue to concentrate privilege and power into the hands of the few. The first flaw is Fractional Reserve Banking:

“This essentially fraudulent practice multiplies bank deposits that exist only as book entries…but making this unsound practice legal doesn’t prevent the public from periodically losing confidence and asking for its money. The result is panic and depression.” (p.76)

The second flaw De Fremery highlights is the related activity of banks borrowing money from depositors for the short term, and then lending money out to clients for longer terms. At any given moment it is impossible for the bankers to fulfill all of their obligations, and as the process continues it becomes ever more unstable. The well connected and powerful are the first to sense or suspect when a resulting crisis is impending; they reduce their exposure in banks; other observers follow, and all this helps precipitate the crisis, resulting from the banker’s practices.

De Fremery notes that:

“Many hold that if the banking system were based on an essentially fraudulent practice, it would have died a natural death long ago. Yes that’s what would have happened if the bankruptcy laws that apply to most businesses were applied to banks. But they aren’t. When panics occur, the bankers (who have borrowed short from their depositors) are favored as compared with those who borrowed from the bankers.

“Those who can’t pay the banks are declared to be insolvent and forced into bankruptcy. But the banker who cannot pay his depositors on demand is not forced into bankruptcy. He is merely "technically insolvent." He is given the opportunity to foreclose on those who can't make their payments to him. Those who are really responsible for the panic – the bankers who borrowed short to lend long – can foreclose on others in an effort to obtain the money they (bankers) owe their depositors! The frightful injustice of this should be obvious."(P.77)

MONEY CREATION A GOVERNMENT PREROGATIVE

"As I see it the only reason (and I do not consider it a valid reason) for allowing banks to borrow short to lend long is that it makes possible an expansion of 'the supply of money'. But this is not a proper function of the banking system."

"Creating money must be divorced from the lending of money. The power to create money must be confined to governments alone and limited by constitutional safeguards. Banks must not be allowed to lend their credit, but only money placed with them for that purpose…The existing value of bank credit, which is being used as money, will have to be monetized and completely divorced from gold."

THE CRIMINAL ELEMENT
Replying to suggestions that laws against borrowing short and lending long would be hard to enforce, De Fremery points out that "It would only be the criminal element in society that would need to be watched – just as we watch for counterfeiters today."

INCREASING THE MONEY SUPPLY
"I distinguish sharply between the government's legitimate function of providing our country with an adequate supply of money and the bank's legitimate function of acting as financial intermediaries. Because we have allowed banks to interfere with the government's function, the government has been forced to interfere with the banks in a multitude of ways."(p.95-96)

As to a formula for new money creation, De Fremery would base it on population growth:

"(Several well known economists) … have suggested that the supply of money should vary directly as the population, i.e. as our population increases, our supply of money should be increased proportionately … Such a dollar would always do justice between debtors and creditors because it would always be equally difficult to obtain." (p.51)

MUST A COLLAPSE OCCUR AFTER AN EXPANSION?
While De Fremery is convinced that mankind has the power to determine its future, and that through monetary/banking reform society can avert a destruction of the economy, others have adopted (almost as an article of religious faith) the notion that a credit expansion must be followed by a crash. De Fremery considers Ludwig Von Mises View that:

"There is no means of avoiding the final collapse of a boom brought about by credit expansion. The alternative is only whether the crisis should come sooner as the result of a voluntary abandonment of further credit expansion, or later as a final and total catastrophe of the currency system involved." (Von Mises, Human action, p.570)

De Fremery disputes this fatalist view:

"But a more plausible theory is that all economic activity is continually reaching a new equilibrium between the total circulating medium of exchange and the goods and services offered for it. In other words, an expansion of bank credit leads to a collapse not because of mis-direction's in production but rather because of the operation of Gresham's law. The use of bank credit as a medium of exchange gives us what Bishop Berkeley called a 'double money'…."

The reason for the collapse then is the preference for the cash money as opposed to the bankers credit, resulting in runs on the banking establishment, to draw out cash.

"According to this theory, it is possible to avoid a collapse following a period of credit expansion simply by converting the existing volume of bank credit into actual money having an existence independent of the debt, and at the same time take away the banking system's privilege of creating any more credit, i.e., force banks to confine their lending operations to the lending of existing funds."(p.50)

One of the main reasons for the difference between De Fremery and the Austrian school of economics on this matter stems from De Fremery's accurate view of the nature of money as a social/legal invention of mankind, rather than as a commodity, or so called economic good.

THE ROLE OF GOLD

Responding to the fetish that places near mystical powers on gold, 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. In other words, gold itself is a comparatively hard money because the supply of gold is inelastic. Bank credit convertible into gold is a very soft money because it is elastic and there are no precise limits to its supply, i.e., it expands and contracts. 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 described above, 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."(p.54-5)

GROWTH OF GOVERNMENT CONTROLS

De Fremery discusses how unsound banking practices are one of the reasons for the growth of government controls.

“(Former Fed Chairman Eccles realized) that the supply of money is a congressional responsibility that has been delegated to the Federal Reserve System. Therefore if we use bank credit as money, the Federal Reserve System must have the power to control the banking system.”(p.111)

“Stubborn adherence to an essentially unsound monetary system has been forcing us to adopt many unsound measures …”(p79)

THE BANKING/MONETARY SOLUTION:

THE 100% RESERVE REFORM PROPOSAL

De Fremery puts forward a simple yet effective plan for a conversion to 100% reserves.

All banks would be required to establish 100% reserve backing for their deposits. The US Treasury would loan freshly created US currency to banks to bring their cash reserves up to 100 %. Federal Reserve Banks too would borrow from the treasury sufficient new currency to bring their cash reserves up to 100% of their demand deposits (funds deposited by their member banks for safekeeping plus all government funds against which checks are being drawn by the government). The amount of U.S. securities held by the Federal Reserve and other banks, would be credited against these borrowings; canceling an equal amount.(p.119)

The elegance of this plan is very powerful. In one stroke, all the money the banks have created out of thin air, through fractional reserve banking, would be transformed into US government legal tender – real, honest money. The prior US debt and US interest payments on the old bank created money (banking credits) would cease to exist, but the new US money would be there in its place! Justice would begin to be served, without requiring a financial calamity, through repudiation and contraction.

De Fremery makes very clear that this reform in itself, would be neither inflationary, nor deflationary. It would simply make real, the existing monetary levels. The potential for wholesale banking panics would be eliminated.

Regarding the political feasibility of such a plan, he remarks:

“During the thirties there was widespread interest in the idea of 100% reserve banking … but because it was not considered ‘politically feasible’, interest waned.

For over 200 years we have been doing what is politically feasible rather than what is economically sound. That’s why the world is in such a mess. And we can expect things to get worse if we continue letting expediency determine our actions.” (p.79,80)

“A banking system based on the unsound practice of borrowing short to lend long is destined for oblivion. The sooner it goes the better for mankind.”

De Fremery concludes:

“Is it not obvious that there are serious defects in our banking system and our tax system that deprive most of us of fundamental rights and bestow enormous privileges on others?”

“How many riots must we endure? How many prisons must we build? How many of our rights must we lose? How many of our young people must be sent away to fight in foreign wars before we decide that enough is enough?”

RECOMMENDATION

Robert De Fremery has written a gem of a book. Concise, yet complete. Simple, yet accurate. A book that serves well as an outstanding introduction and primer to all of the Henry George Schools for taxation reform; and to the 100% reserve concept of banking and monetary reform. This book is highly recommended. As for those rare persons who already consider themselves expert in both areas, they will enjoy and benefit from De Fremery’s clarity of thought and illustrative examples. They will also have a very convenient and effective way of introducing others to those concepts, by making a gift of the book.