

# SOME IDEAS WE CAN BANK ON

by Edward Dodson, Cherry Hill, NJ

By the time GroundSwell readers will have this edition of our newsletter in hand, I will be back home from a trip to Edinburgh, Scotland, to attend and participate in this year's gathering of International Union for Land Value Taxation & Free Trade members. Interestingly, the paper I have prepared for discussion at this conference deals not with the taxation of land values in all of its manifestations or with free trade. Rather, I go armed with arguments to rid our societies of the great evil of government-mandated legal tender paper currency. I gave to this paper the title: "Promises to Pay Nothing in Particular: A Brief History of Monetary Diseases and a Proposal for Their Cure." The paper can be read from the library of the SCI website (<http://www.geocities.com/athens/acropolis/5148>), and I hope to be able to add a transcript of the discussion at some point after the conference.

My views are clearly those of a small minority, perhaps even a small minority among those who champion the cause solving the land question in the manner proposed by Henry George. If I am to believe the President and C.E.O. of the Federal Reserve Bank of St. Louis, William Poole --who wrote recently that "everyone now agrees that inflation is controllable by central bank actions" and that "[e]xperience in the United States and elsewhere around the world has ended this debate" -- then I must admit to a very great misunderstanding of history and political economy.

(The Evolution of Monetary Policy and the Federal Reserve System Over the Past Thirty Years, Kopeke and Browne, 2000, p.23)

I have often described the laws of production and distribution set down by Henry George as a "closed system," in that all wealth produced is fully accounted for. Within this system we must account for wealth used as a medium of exchange (i.e., money). Henry George provided us with this observation in a footnote:

"Money may be said to be in the hands of the consumer when devoted to the procurement of gratification, as though not in itself devoted to consumption, it represents wealth which is; and thus what I have given as the common classification would be covered by this distinction, and would be substantially correct. In speaking of money, in this connection, I am, of course, speaking of coin, for although paper money may perform all the functions of coin it is not wealth, and cannot therefore be capital."

My point of view is that the term "paper money" is an oxymoron, a view that George disagreed with. Later in his final work, he observes: "there are some who say that money really consists of the precious metals, and that whatever may be locally or temporarily or partially used as money can be so used only as a representative of these metals. They hold that the paper money which now constitutes so large a part of the currency of the civilized world derives its value from the promise, expressed or implied, to redeem it in one or another of these metals, and by way of assuring such redemption vast quantities of these precious metals are kept idly in store by governments and banks."

George's implication seems to be that the storage of precious metals that have more practical value significantly re-

duces the quantity of wealth available for use as capital. He reminds his readers: "What is money in the United States is not money in England. What is money in England is not money on the Continent. Which was certainly true at the time - but had been much less true (as I point out in my conference paper) during the early decades of the Bank of Amsterdam, when this institution served global commerce by taking in coinage from many countries and bullion and minting coins of a standard weight and measure.

Commerce demanded greater convenience than having to carry large quantities of coinage around, so the Bank of Amsterdam issued certificates of deposit that could be assigned to others in exchange for goods or services, the recipient assured that upon presentation coins of a standard weight and measure (i.e., of gold and/or silver content) would be turned over. George said nothing about this brief period of deposit banking, although he certainly had access to its history from Adam Smith and others.

Where George and I really diverge is when he states: "[I]t is the business of government to issue money. 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." An important lesson of history is that those who govern have consistently made use of the law to self-create credit for the government by debasing the coinage to the point where coins came to have little or no intrinsic value; and, where government assumed or was given the power to issue a paper currency and declare this currency legal tender, the effect was to institutionalize a continued erosion of purchasing power.

The natural reaction on the part of people who actually produced goods and offered services was to hoard actual money (confirmed Gresham's research). The private bank of deposit, subject to regular auditing, was never considered by George as the right solution to the problem. Banks had been allowed to issue their own bank notes backed by nothing in particular. No one should have been surprised that these notes were discounted down to almost nothing and that bank failures were a common occurrence. To George, government control was the answer, which is a bit like assigning the fox to guard the hen house.

Much has changed in the world since George's time. Every major country and many minor countries have central banks, empowered to issue bank notes backed by nothing in particular other than the "full faith and credit" of government. In every case, the purchasing power of the nominal valued paper currency has declined over time (sometimes over almost no time at all). Currency markets are extremely sophisticated and always open. Corporations, individuals and governments all hold some quantity of the paper currency of a variety of nations as a hedge against exchange rate volatility. The markets impose a degree of discipline over governments tempted to repay creditors by issuing more currency rather than imposing new taxes at home. (continued on page 10)

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And so, the shell game continues. I will make the case for an honest money system to the International Union members. It will be interesting to hear what others have to say on the subject. In the end, however, there is virtually no mainstream interest in this reform. One possibility is to attract one of the large financial service companies to the idea of establishing a bank of deposit, then build a global network of members who trade with one another outside of the government-mandated system of legal tender. As more banks of deposit come into being and begin to dominate global commerce, government paper currency may eventually be discounted out of existence. Governments will then have to play by very different rules.

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(Note: Citations from Henry George are from *The Science of Political Economy*, pgs. 299, 480 & 488, and from *Social Problems*, pg. 178.)

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