

Thomas Paine's Advice on the Money and Banking Questions

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Every society on the planet has struggled with the challenges of how to find a means of safely and efficiently exchanging goods and services without having to resort to barter. We refer to the chosen mediums of exchange as *money*. Over the last several thousand years, many tangible commodities have served as money. Eventually, as trade between people living in different societies expanded, our forefathers gravitated to coinage minted out of both readily-available and relatively-scarce metals.

By the time of Thomas Paine's birth in 1736 the dominant nation-states on the European continent each minted coinage out of two precious metals – gold and silver. The fortunate found deposits domestically that could be mined. Most relied upon conquest to secure supplies. Accounts between merchants were settled by transfer of money from merchant bank to merchant bank. Monarchs were not above using coercion to obtain loans from the bankers with which to fund wars of conquest, and bankers were not above making loans to all participants, hoping that the winners would repay them with interest.

Early in the seventeenth century, the Dutch made a valiant effort to create a uniform international paper currency (i.e., "receipt money") that circulated while deposits of gold and silver coinage and bullion were held by the Bank of Amsterdam. Depositors actually paid a fee to the bank in return for the bank's services and protection of the depositors' money. This system of honest money lasted for only a few decades, however. Dutch bankers eventually began to issue bank notes that exceeded the value of the bank's actual precious metal assets. The end of full reserve banking arrived, never to be re-established. Fast forward to today and what we have is actually *no reserve* banking, if by reserves the definition is restricted to coinage minted out of gold or silver.

In June of 1786, Thomas Paine's perspectives on the money and banking questions appeared in the *Pennsylvania Packet*. The title of his article was "On The Advantages Of A Public Bank." By "public bank," Paine meant one in which ownership is broadly shared so that "any man in any part of the country may be a banker by being a stockholder." A public bank was ostensibly subject to tighter regulation and audit than a private bank, "the true condition of [which] can be known only to the proprietor." The value of the public bank, Paine argued, was the provision of loans "for short periods," loans that "serve to pay the farmer, the miller, the tradesman, the workman, ... and hundreds are served in the course of a year."

The governments dominant in Paine's world incurred huge amounts of debt to carry on their imperialist undertakings. The wealthy in each nation were then (as they are now) successful in avoiding taxation sufficient to meet ongoing government spending. As the poor have no financial resources to speak of, it is commerce that absorbs the costs of government, including the revenue required to service public debt. In *Rights of Man*, Paine joined with Adam Smith and Anne Robert Jacques Turgot in calling for the landed to pay their fair share, always and everywhere resisted:

"[How] long can the funding system last? It is a thing but of modern invention, and has not yet continued beyond the life of a man; yet in that short space it has so far

accumulated, that, together with the current expenses, it requires an amount of taxes at least equal to the whole landed rental of the nation in acres, to defray the annual expenditure.”

More directly, Paine pulls no punches in his description of the role played by the landed. Again, in *Rights of Man*, he writes:

“The aristocracy are not the farmers who work the land, and raise the produce, but are the mere consumers of rent; and when compared with the active world, are the drones, a seraglio of males, who neither collect the honey nor form the hive, but exist only for lazy enjoyment.”

What Paine understood is that the money question and the land question were intertwined. Where landed interests dominated, the redistribution of wealth from producers to non-producing *rentier* interests resulted in generational poverty for the majority of people in any society. Paine’s most ambitious response to these challenges appeared in *Agrarian Justice*. He was the first to propose the payment by society of a universal basic income to all, to compensate the majority for the elimination of what he described as our “natural inheritance”:

“Taking it then for granted that no person ought to be in a worse condition when born under what is called a state of civilization, then he would have been had he been born in a state of nature, and that civilization ought to have made, and out still to make, provision for that purpose, it can only be done by subtracting from property a portion equal in value to the natural inheritance it has absorbed.”

Paine looked to national banks to issue the money in the form of bank notes with which to distribute the universal basic income to the elderly and to “persons arriving at twenty-one years of age.” I suspect that he would be sympathetic with those who today are campaigning for the establishment of public banks that operate as not-for-profit enterprises serving the broad interests of the community (or a state, as the Bank of North Dakota has functioned since the first decades of the twentieth century).

What impresses me most about Paine’s writing on these issues is that he recognized the need for systemic change. He thought through how various changes in socio-political arrangements and institutions would affect what he saw as just outcomes.