

HENRY GEORGE AND SILVIO GESELL: AN ONLINE DISCUSSION OF THEIR VIEWS ON MONEY CREATION, BANKING AND CREDIT

Held by the Henry George School of Social Science / August 2025

JOE POLITO:

1. The Henry George School is about advancing Georgist thinking.
2. George was also a Greenbacker. I can see presentations on the greenback, sovereign money approach. It has several historical precedences.
3. Gesell has some good economic analysis, but nothing conventional greats and Nobel Prize winners have not said.
4. Gesell's money approach is ultimately a local emergency solution when the flawed private bank approach is failing. The far more preferable greenback approach, the debt free sovereign money approach should be advocated. It not only would keep the economy at full capacity, it would improve the distribution of goods and services more just, and would ensure better choices were made for what those goods and services would be. That is rather than building casinos and bars, we could be building more hospitals and universities!

That is Georgist thinking on money would improve economic progress, while eliminating poverty.

JOSH SIDMAN (responding to Joe Polito):

While I certainly have no problem with someone making the case that the Henry George School should be primarily about Henry George and not other thinkers, you made two false statements. 1) No "conventional great" or Nobel Prize winner proposed the separation of medium-of-exchange and store-of-value via demurrage currency. 2) Gesell's proposal is not a local emergency solution. Presumably you are referring to projects like Wörgl, but Gesell himself never thought of his proposals as being for local and/or emergency use.

Furthermore, from a Gesellian perspective I disagree that sovereign money would keep the economy at full capacity. Both Gesell and Keynes agree that any form of money which can be held without cost or loss will eventually lead to self-reinforcing deflationary crises. While this is a matter of opinion, I find the reasoning to be compelling and self-evident. I don't see any reason to believe that simply replacing hoardable bank created money with hoardable state issued money would keep the economy at full capacity.

JOE POLITO (responding to Josh Sidman):

I was separating Gesell's economic analysis from his money proposal. The fact that no other great economist has gone down that demurrage road is a major red flag caution to supporters.

WW2 is a precedent of the potential of solid Keynesian analysis combined with the provision of enough funds to mobilize idle resources.

The Lincoln greenbacks history illustrate the same, and explain the rise of the Greenback party.

Josh Sidman wrote:

Keynes agree that any form of money which can be held without cost or loss will eventually lead to self-reinforcing deflationary crises.

Joe Polito responded:

Yes Keynes said that you can have equilibrium at high unemployment. But he also explained that with appropriate political economy policies and monetary policies, you could have a full employment economy.

Economics acknowledges that there are far more demands on the economy than can be supplied. In that context, Keynes believed it was crazy to leave some workers idle. Keynes famously said, "anything we can actually do, we can afford." The public and private sectors decide what choices are made with those limited resources.

His 1942 radio broadcast for public consumption reflects much of his analysis.

RICHARD DiMARE:

It's pretty well established that George was a Greenbacker, especially after the Supreme Court approved their legal tender status in 1884, and with money being a national issue, it's very likely the reason he began seeking a national "single tax" (on unearned incomes only) in 1888.

But regarding Gesell, I think there's lots George can offer to support his theories (but by using taxation instead of demurrage).

Under the Henry Simons transition plan, as best I can understand it, there is no need for government to pay interest, or for banks to hold reserves with their regional bank.

Greenback Restoration Act: Title II

During a 2-year transition period:

- (1) The Treasury purchases all of the stock of the bank and dissolves the (typically state-chartered) corporation, then puts all customer deposit accounts into the Treasury Direct system, making these accounts 100% liquid in Greenbacks and transferrable within the Treasury-Direct system.
- (2) Regarding outstanding loan assets held by the former bank, the Treasury does not want to service loans and is not in the lending business, so extends a loan (if necessary) to a new federally-chartered investment trust corporation (ITC) to service the loans, which new corporation is allowed to keep the interest as it comes in, but must pay principal to the Treasury (if indebted to Treasury).
- (3) The accounting looks something like this:
 - Gross debt bank owes to Treasury for buying the bank's loan assets, paying the bank in Greenbacks, and relieving the bank of liability for its customer deposits
 - Minus – Bank holdings of interest-bearing U.S. securities
 - Minus – Any reserves held by the bank's regional reserve bank
 - Minus – Any additional voluntary payments by the bank from its capital or retained earnings
 - Minus – Outstanding loan principal as it comes in (over the life of the loan)
 - Equals – Gradually declining net debt owed to Treasury

It's pretty well established that George was a Greenbacker, especially after the Supreme Court approved their legal tender status in 1884, and with money being a national issue, it's very likely the reason he began seeking a national "single tax" (on unearned incomes only) in 1888.

JOSH SIDMAN:

I would argue that the fact that central bankers have judged it necessary to pay interest on reserves is yet more evidence in support of Gesell's diagnosis of the problem. Interest is the drug that must be administered in order to get the economic "blood" to circulate. We just lived through a historic episode during which unprecedented amounts of central bank liquidity were created and it still failed to circulate.

Arguing that sovereign money can accomplish the same thing as demurrage or that taxation can achieve the same results ignores the central problem of interest. As Gesell (and subsequently Keynes) argued, interest is a consequence of money's artificial storability. By creating money that has superior qualities as a store of wealth vis-a-vis real, tangible assets, it is obvious that whenever prices begin to fall for any reason, people will choose to postpone consumption and hoard money. This hoarding will, in turn, result in further price declines, et cetera. As long as money can be held without cost or loss, there is no self-correcting mechanism to reverse this dynamic. Rather, it is self-reinforcing. Neither sovereign money nor taxation addresses this problem.

Again, from my point of view, the problem here is the tendency to make a deity of Henry George, whereas I believe a more reasonable perspective is to recognize that he was a genius in terms of his understanding of the land issue but that he had an incomplete understanding of the subjects of money and interest. In fact, there is evidence to suggest that George himself knew this to be true. In an upcoming paper, Prof. Dirk Loehr writes the following:

"Another weakness in Henry George's work is his theory of interest... George's theory of interest has similarities with the fructification theory (as described by Boehm-Bawerk). According to George, interest is the price for enabling workers to achieve higher productivity through access to capital goods. Reports suggest that Henry George discussed this issue with the German land reformer Michael Fluerscheim, who was also the editor of the journal *Freiland*. Fluerscheim largely followed George's theoretical framework but attempted to convince him that his capital theory was flawed and diminished the credibility of his work. In line with Gesell's perspective, Fluerscheim argued that interest stemmed from deficiencies in the monetary system and that eliminating these deficiencies would inevitably lead to a decline in capital interest rates. Henry George allegedly responded enthusiastically: "*Even better!*" Fluerscheim later reported how uncertain George seemed regarding the subject of capital interest and suggested that it was merely the lack of external critique that had prevented George from addressing the interest problem more thoroughly. It seems likely that Henry George himself did not consider his own theories on interest and capital to be essential to his broader work."

CLIFF COBB:

I have been trying for 30 years to find someone who was open to a discussion about the definition of "Georgism" (or its synonyms). I have been involved with several Georgist institutions in which no one wanted to discuss a definition. That exercise was considered divisive. Yet, at the same time, there were always participants in that institution who would use the word "Georgist" as a weapon against those who veered from what that person considered Georgist purity. Yisroel Pensack spent that last decade of his life haranguing fellow Georgists for straying from the path of righteousness. Here we have a perfect example of that phenomenon. Your premise, Joe, is that Gesell's ideas are not sufficiently "Georgist" to be an appropriate topic for a series of HGS programs or classes.

I will turn this premise around and suggest that most of what is discussed under the rubric of Georgism covers only a tiny portion of what ought to be classified as Georgism. If I were to argue that Georgism has a core idea or "essence" (even though I am a critic of essentialism), I would point to Georgism's succinct phrase "association in equality." By my reckoning, any set of coherent ideas that can be shown to advance that goal can reasonably be classified as Georgist. There are numerous Georgists with libertarian affiliations who would place George's "ode to liberty" at the center of his philosophy, and there is some merit in that view. But in the 18th century (and the 19th to a lesser extent), republicanism competed with liberalism to be the philosophy that would represent the United States. That debate was about competing understandings of "liberty," the liberal version tolerating slavery and the republican version

seeing slavery as the antithesis of its philosophy, in large part because equality was central to the identity of republicanism.

I personally would prefer for Georgists to assume the term "republicanism" to define our philosophy rather than Georgism, but being pragmatic, I have never advanced that proposal. The term "republican" is now associated with a political party by that name that has almost no interest in advancing equality. In addition, the meaning of the word "republicanism" in the Anglo-American world of academic political philosophy has been co-opted by professors, such as Quentin Skinner, who eliminate material or economic factors from consideration. This school of republicanism is interested only in juridical equality. Because the now-standard academic understanding of republicanism is so truncated, that is another reason to abandon any hope of subsuming Georgism under the larger rubric of republicanism, even if it fits perfectly in some older understandings of the republican ideal.

Marxism has been allowed to spill over the boundaries defined by the writings of Marx. I've been told that the most popular Marxist thinker among Chinese intellectuals is Frederic Jameson, a literary critic. Is it even possible to imagine a Georgist literary critic? Certainly not within the constrained framework that most Georgists want to impose on their own philosophy. We can do better, and in the meantime, until we carefully define our own terms, we can refrain from telling others that their work is not Georgist enough.

JOE POLITO:

Gesell's money approach is ultimately a local emergency solution when the flawed private bank approach is failing. The far more preferable greenback approach, the debt free sovereign money approach should be advocated. It not only would keep the economy at full capacity, it would improve the distribution of goods and services more just, and would ensure better choices were made for what those goods and services would be. That is rather than building casinos and bars, we could be building more hospitals and universities!

JOSH SIDMAN (responding to Ed Dodson):

While I agree with what you just said, I would say that there is a part that is missing, which is that the return on money puts a floor on the rate of return which real capital must generate in order to attract funding. In other words, why would you invest in a productive enterprise that is expected to return 5% if you can earn a risk-free interest rate of 5% by lending to the government? This means that the process of capital formation stops when the rate of return on productive investment falls below the rate of interest. AND THIS IS AN ARTIFICIAL PHENOMENON CAUSED BY THE EXISTENCE OF INTEREST. If interest on money did not exist and holders of money didn't have the option of earning a risk-free return of 5%, they would have no better option than to fund productive investments that are expected to return 5%, 4%, 3%... So the existence of the artificial phenomenon of interest distorts the natural processes of production by keeping capital perpetually scarce, which of course leads to excess returns on capital. If that artificial brake on capital formation was eliminated, the process of productive investment would continue, shifting the balance of power away from owners of capital and toward workers, until, as Gesell said, "the means of production will lose their capitalistic character." In other words, capital will no longer be able to extract interest/capital yield/surplus value, whatever you want to call it.

The following quote from The Natural Economic Order is helpful in this regard:

"So-called real capital is therefore anything rather than "real." Money alone is true real capital, basic capital. All other capital objects are completely dependent upon the characteristics of the existing form of money; they are its creatures; they receive the title of nobility, the title of capital,

from money. Deprive money of the privilege of forbidding the workers to build new houses, tear down the barrier raised by money between the workers and real capital, and the supply of such things will increase until they lose the characteristics of capital."

ED DODSON:

I think most of you know my view of our efforts to change the course of history, which is that the perfect is the enemy of the good. To me, getting incrementally closer to the perfect is a win in world governed by collective insanity.

A thought from one of the lesser minds (me) who has pondered money creation. The lesson I find in our actual history is that we humans have proven adept at gaming every system that is instituted. As Henry George tries to remind us, we seek to satisfy our desires with the least exertion; and, therefore, we have a strong tendency to attempt to monopolize natural opportunities.

We know that the fiat system of money creation has been a contributing cause to our cycles of boom and bust. Wide access to cheap (i.e., inflation-adjusted, nearly negative-yielding) money expands the demand side of markets for assets with an inelastic supply, driving up the asking prices for these assets. We know (theoretically and with some real world practice) that the public capture of the major portion of economic rents in lieu of taxes on production and commerce would bring down the price of assets with an inelastic supply, causing the demand for loans to fall and potential fall significantly at the household level. Banks would then have to redirect their lending to businesses.

Now, a reality check. The above systemic reforms might find incremental, very slow adoption. There are signs in at least a few countries that the theory is understood and some progress has been achieved. But, the opposition remains entrenched and almost everywhere has control of the political and legal machinery. So, the challenge as I see it is what are the incremental reforms most likely of adoption that also will have meaningful outcomes?

On the money question, I put my best hope on the expansion of public banks combined with getting the central banks out of the money issuance authority, returning to the national treasury the authority to issue and spend into circulation debt-free money. The central banks should be compelled to cancel all outstanding debt held against the national government. Each year, the legislature in its budgeting process would allocate sufficient sovereign money held by the treasury for payment to investors of the principal due on maturing public debt as well as the interest payments due on outstanding securities. By this approach, the public debt in any country would be fully discharged over some known period of time.

RICHARD DiMARE (responding to Ed Dodson):

Ed, I respect your position, but we haven't even had the vocabulary to fully explain ourselves (which is probably by design), which is why I've retreated from advancing my Greenback Restoration Act (GRA) to the Research and Policy group.

As I mentioned before (and assuming we even agree that money is fully a creature of the law), both Greenbacks and banknotes have been defined by the Supreme Court as "bills of credit," and in the slides I attached, we break that term down into "bills of government credit" (which are Treasury-direct Greenbacks) and "bills of bank credit," with this latter term being broken down into "bills of public bank credit" (which is what you favor) and "bills of private bank credit" (what we have now with the FRN).

The problem with both forms of "bills of bank credit" is that they are both debt-based, one where debt owed to private banks circulates as currency, and the other where debt owed to the federal government circulates as currency.

Now as George wrote, debt cannot be or represent wealth, so there's the problem. Only Greenbacks (bills of government credit) are legally capable of representing wealth and property.
Rick

JOSH SIDMAN:

Separation between deposit banking and investment banking does not solve the problem of interest (even if ITCs taxed interest at 100%, which would just push lending into the black market) unless you also eliminate physical cash (as Dr. Willem Buiter, a leading voice on the subject of negative interest rates has called for). Again, the core issue is very simple. Virtually no form of tangible assets can be held without cost and/or loss. Therefore, as long as a form of money exists which can be held without cost and/or loss, money will have an advantage vis-a-vis real wealth, and that advantage will manifest in the form of interest. The only way to change this dynamic is to deny money the artificial privilege of being unnaturally storable. Unless this is done, interest will continue to exist, and as long as interest continues to exist, money will "go on strike" when the return on capital falls below the rate of interest. This short-circuits the capital formation process and causes capital to always be scarce. The scarcity of capital is the true cause of what Marx referred to as "surplus value" -- i.e. the power of the owners of capital to appropriate from labor a share of the proceeds of labor that they have not earned. In my view, it is unrealistic to imagine that taxation can be used as a tool to effectively redistribute all of the wealth that is maldistributed by an exchange system which is dysfunctional due to the artificial influence of an irrational form of money. Sure, certain forms of taxation may be better than nothing, but taxation treats the symptoms rather than the primary disease. Making money unhoardable and thereby putting it on a level playing field with real wealth is the only way to make it a truly neutral instrument that facilitates exchange without distorting the exchange process and giving rise to unearned income -- i.e. interest.

JOE POLITO (responding to Josh Sidman):

Josh wrote: Virtually no form of tangible assets can be held without cost and/or loss. Therefore, as long as a form of money exists which can be held without cost and/or loss, money will have an advantage vis-a-vis real wealth, and that advantage will manifest in the form of interest.

Joe responds:

People have held all sorts of durable goods as savings - houses, cottages, commercial buildings, land, paintings, all sorts of collections. They too can collect unearned income. They too can be hoarded. They too can be used by others for productive purposes. These are human choices. Interest can be used to unlock the idleness. Capital equipment is long lasting. And if someone goes bankrupt, it can be bought out with a loan at interest and put back into productive activity

2. re: Unless this is done, interest will continue to exist, and as long as interest continues to exist, money will "go on strike" when the return on capital falls below the rate of interest. This short-circuits the capital formation process and causes capital to always be scarce.

You are expressing the loanable funds fallacy. Keynesians know money need not ever be scarce. Greenbackers know the same. Schumpeter did as well, and many have since. Here are some penetrating quotes:

“Increased investment will always be accompanied by increased saving, but it can never be preceded by it. Disharding and credit expansion provides not an *alternative* to increased saving, but a necessary preparation for it. **It is the parent, not the twin, of increased saving.**” (Keynes).

“[...] the banks hold the key position in the transition from a lower to a higher scale of activity. If they refuse to relax, the growing congestion of the short-term loan market or of the new issue market ...[they] will inhibit the improvement, no matter how thrifty the public purpose ...The investment market can become congested through shortage of cash. **It can never become congested through shortage of saving. This is the most fundamental of my conclusions within this field.**” (Keynes).

“The banker [...] is not so much primarily a middleman in the commodity ‘purchasing power’ as a *producer* of this commodity. [...] He authorizes people, in the name of society as it were, to form them.” (Schumpeter)

“[C]apitalism [is] defined by three features ...[3rd] the creation of means of payments – banknotes or deposits – by private banks. (Schumpeter).