H. Armstrong Roberts

## The Populist Nonsense Of The Social Creditists

# THAT MONEY SHELL GAME

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■ NOT MANY years ago it seemed that fewer people were aware of the power and influence of the Federal Reserve on our lives than know the formula for Coca-Cola. All that is changing, thanks largely to the policies of Federal Reserve Chairman Paul Volcker. Fed chairmen have in the past attracted about as much attention as the mating habits of the gnu. Oh, there were a few fervent followers of the arcane world of the Fed who kept the lineup, but very few. The investing public was only mildly aware even of the correlation between the policies of the Fed and the Dow Jones Industrial Averages.

The reason for Volcker's high profile is that in October of 1979, when the Consumer Price Index was escalating at a rate of fifteen percent, he stepped in and for three Fiscal Years kept a lid on monetary expansion through the Open Market Committee. Had the Fed not done this, the C.P.I. would today be mushrooming in the neighborhood of thirty percent. However, the consequence of putting the lid on money creation was the second-worst economic depression in American history. This made Volcker controversial. It has also made the Fed controversial among both "Liberals" and Conservatives. Nowhere is the confusion in these matters better illustrated than in the realm of alternative theories of what constitutes sound money and honest banking.

**The Money Question**

Millions of patriotic Americans are now conscious enemies of the Federal Reserve and of the present system of managed fiat money which is under its control. Readers of this magazine are well aware that central- and fractional-reserve banking are essential to the ruling power of the Establishment *Insiders*. Such readers are equally aware that reform or replacement of the current money system is essential to any strategy for taking control of our economy from the financial elitists.

Although the number of those who oppose the schemes of the big bankers and the Federal Reserve continues to grow, profound disagreement exists among opponents of the ruling-class conspirators as to how best to restore equilibrium. Most on the Left want simply to seize control of the current oppressive system and operate it through their own bureaucracy for "the good of the people." The fact that a socialized system would not work even as well as the present corrupt money system is not appreciated by the anti-Establishment Left because of its pathetic ignorance of economics. Merely nationalizing the present system in the name of "the people" would only propel an even more vicious and irresponsible clique of rulers into power, as is amply demonstrated by the experience of the Communist countries. But the Left is not fazed, and continues its drive for power, abetting its corporate-socialist "enemies" in building an ever more powerful government which the monopolistic *Insiders* in turn use further to cartelize the economy and strengthen their control.

Among opponents of this conspiracy who embrace the Free Market, meanwhile, there is a profoundly important disagreement. This rift within the anti-Establishment Right is between those who advocate the gold standard and those who favor a paper-money system operated by the U.S. Treasury instead of the Fed.

The first group is represented by such organizations as the National Committee For Monetary Reform, the U.S. Choice In Currency Commission, the Committee For Monetary Research And Education, the American Institute for Economic Research, the Committee To Establish The Gold Standard, and many individual adherents of the "Austrian School" of Free Market economics represented by the late Ludwig von Mises* and his followers,

*Ludwig von Mises, the great Austrian economist, was an uncompomising champion of the ideals of individual liberty and Free Enterprise. Among his most important works are *The Theory Of Money And Credit*, *Socialism*, and his great book *Human Action*. Other, less advanced, studies by Mises include *Planning For Freedom*, *Planned Chaos*, *The Anticapitalistic Mentality*, *A Critique Of Interventionism*, *Bureaucracy*, and *Economic Policy*. Three basic introductory texts are *Free Market Economics* by Bettina Bien Greaves, *Understanding The Dollar Crisis* by Percy Greaves,

**The Social Creditists would replace the Federal Reserve by turning the money presses over to the politicians, whom they naïvely believe can be trusted not to debauch the currency. What the U.S. really needs is a monetary system based on gold and silver coins and fully redeemable hard-money certificates.**

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including Henry Hazlitt, Murray Rothbard, Hans Sennholz, Percy Greaves, and George Reisman. Being opposed to any form of monopoly control over the issuance of money, the pro-gold partisans note that only with gold and silver coins in the possession of the people can a decentralized money and banking system be kept safe from manipulation by special interests.

One book which explains the pro-gold and anti-conspiratorial viewpoint is *The Paper Aristocracy* by Howard Katz. Mr. Katz explains why he and his fellow advocates of a true gold standard oppose both fiat currency and the phony gold standards which have existed historically — especially the "gold exchange" standard. He shows that the old gold-exchange standard was an instrument of financial *Insiders* who were granted special privileges by government to issue "legal-tender" notes, credit, and checking accounts far in excess of the gold reserves held on deposit. Thus, the bankers were granted the power to create money out of nothing. This fractional-reserve system resulted in a series of carefully manipulated booms and panics for which the gold standard was falsely blamed.

Another excellent book on the pro-gold view is *The Case For A 100% Gold Dollar* by Murray Rothbard. Professor Rothbard demonstrates how a money system consisting of coins and paper receipts, backed 100 percent by specie (metal money), would function without the need for any central bank, private or governmental. Rothbard also wants checking accounts and other demand deposits backed 100 percent by gold. Without the power legally to counterfeit claims on deposited wealth, the debt-money *Insiders* would lose their hegemony.

### The Myths Of Social Credit

Then there are the Social Creditists, who strongly eschew any kind of gold standard because they believe it too can be manipulated by the international bankers. Their biggest problem, however, is that they believe the federal government can be trusted properly to manage a system of fiat money. Social Credit is the economics of neo-populism. The ideas of Social Credit have become quite popular in the United States, even in otherwise "Conservative" circles. Over the decades there has been a stream of Social Credit tracts and

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and *The Essential Von Mises* by Murray Rothbard. Mises served on the Editorial Advisory Committee of *American Opinion* from its founding until his death in 1973 at the age of ninety-two.

books by such authors as Wycliffe B. Vennard, Gertrude Coogan, H.S. Kenan, Congressman Louis McFadden, Alexander Del Mar, Whitney Slocum, Frederick Soddy, R. McNair Wilson, A.N. Field, Arthur Kitson, Peter Cook, Father Denis Fahey, and "Liberal" former U.S. Congressman Jerry Voorhis.*

Few Americans have ever heard of these writers or of the term Social Credit,† yet many are jumping on the neo-populist Social Credit bandwagon as an alternative to the Federal Reserve and the present system of debt-backed fiat money. It is our intention here to examine some of the tenets of this movement‡ to see why it represents a *false* alternative.

The notions of the Social Credit populists consist of a confused mixture of Marxist, Keynesian, and Monetarist elements. The advocates of fiat money generally see the "gold standard" as evil because international bankers can manipulate it to control the economy, and because they think it unnecessarily restricts the supply of money and credit in the nation. They hold that an increasing money supply is essential to an expanding economy. And they see the power to issue fiat money as an evil *only* when granted to private bankers as under the Federal Reserve. They believe that a stable fiat currency can be established and maintained, provided that it is handled honestly and intelligently by the "representatives of the people" in a sovereign government and is based on that government's credit and its power of taxation.

The Social Creditists take care to emphasize that the United States Notes or Treasury "greenbacks" which the national government would issue under their system are to be debt free, as such notes were when issued under President Lincoln to finance the Civil War. Most importantly, they maintain that the issuance of all money must be an exclusive monopoly of the federal state, and that the federal government can — without danger of inflation — meet all of its expenses (including the cost of vast Welfare programs) simply by issuing its own notes free from the bonds of redeemability in gold or silver.

Let us examine these doctrines of Social Credit from the perspective of its Free Market ("Austrian School") critics.

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*Several small, almost underground, publishing houses have been consistent in promoting these inflationary monetary theories. One of them was the Forum Publishing Company in Boston, now defunct. The most important outlet for Social Credit theories, however, is Omni Publications of Hawthorne, California. And the Monetary Science Institute, operated by Peter Cook in Wickliffe, Ohio, is another prominent source of information supporting the Social Credit reforms.

†The term Social Credit was coined by Major C.H. Douglas, who was the intellectual founder of the Social Credit Party of Canada. The works of American writer Gertrude Coogan have been selected here to represent this school of thought because her books are probably the most widely known of the genre. Also, Miss Coogan is the only one of these writers who has any formal economic training. She holds a Masters Degree in commerce from Northwestern University.

‡Populism in the United States began in the late 1800s and continues to have great influence. To their credit, the populists have generally taken a stand against American entanglement in foreign wars and intrigues; however, when it comes to domestic policy, they have pushed for the adoption of several socialist programs, including the income tax, government control of the railroads, and inflation of our currency. In this respect they have to be classified as being on the Left since they played an important role in the expansion of Big Government. The resurgence of populism — or neo-populism — has in recent years been a prime objective of Liberty Lobby and its *Spotlight* tabloid. This poses a serious threat to the otherwise anti-collectivist nature and effectiveness of the Americanist cause.

**What Is Money?**

At the very core of Social Credit theory is confusion over the nature and origin of money. In her book *Lawful Money Explained* (first published in 1939 with many subsequent reprintings), Gertrude Coogan gives the following definition: "Owning money is legal evidence that the owner has given up something — goods (property) or services (work) and has not yet claimed an equivalent amount of the goods and services of others . . . . Money is a legal *demand* claim on all goods for sale."

This is a fundamental error. As Dr. Gary North points out in his critique of Coogan's views: "She begins with a totally fallacious definition of money and money's legal prerogatives. First of all, the owner of the money may not have given up anything at all. He may have found the money, or perhaps he inherited it; someone may once have worked for it, but the present owner need not concern himself with that fact, nor does any prospective buyer. Second, money is not a legal demand claim on all goods offered for sale. For instance, the possession of money, by itself, does not make it possible for a Negro to buy a home in any neighborhood he chooses — from any seller he chooses. A special federal law was passed in order to coerce sellers into accepting the Negro's money, but the money itself does not give him a moral or legal claim to all goods available to white buyers. In another case, drunks are frequently refused services in bars, in spite of the fact that they hold money as a 'demand claim.' The sellers have some discretion in the matter of sales, and any economic system which calls itself capitalistic must see to it that the rights of the sellers must be preserved. It cannot begin with the idea that money is a legal '*demand* claim on *all* goods for sale.' " (Gary North, *An Introduction To Christian Economics*, Craig Press, 1979)

Further along in her book, Coogan makes clear that she thinks money is not a commodity the use of which arose naturally out of the choices of those who trade in the marketplace. Rather, she contends that money is whatever the government says it is. In other words, that money is a creation of the political state and not a development of the marketplace. Paper (or anything else) can become money, she writes, because "it is the declaration by the Common Authority '*This is Money*' that makes it money."

Thus Social Creditists erroneously believe that *all* money originated out of arbitrary fiat. But this just isn't true. Money is not "created" out of nothing by fiat, but evolves from the voluntary use of commodities (*e.g.*, gold and silver) by persons involved in commercial transactions. Gold and silver were used as media of exchange before governments conferred legal-tender status on them.

Originally, commodities circulating as media of exchange had other, non-monetary, uses. That is, the particular good was valued for some use other than its ready exchangeability. Because certain goods — such as gold, silver, and precious stones — possess definite properties (durability, easy divisibility, portability, and scarcity) — they were of course easier to exchange than other commodities. The more people realized how easy it was to exchange these particular commodities for other goods and services, the more these commodities were desired purely as exchange media.

Unlike other goods, these money-commodities are valued not exclusively for their ultimate use in consumption, but also as exchange media which many people trust and accept voluntarily. Money is simply the *most barterable good* available, due to its physical characteristics and to the historically developed acceptance of it as a medium of exchange by people engaged in voluntary (market) exchanges. (Ludwig von Mises, *Human Action*, Third Edition, Chicago, Regnery, 1966, Page 410)

Gold did not have to be *declared* to be money by any authority. By the time kings and governments gave their endorsement to it, it was already money by usage and custom. Money evolved; it wasn't created by declaration as claimed by the Social Credit analysts.

Coogan and other Social Creditists believe that gold and silver coins were used as money only because the state stamped them with its magic seal, giving them legal-tender status; that otherwise people would not accept them as money. (Coogan, *Lawful Money Explained*, Lecture Number Three) They incorrectly conclude, therefore, that upon withdrawal of the government's stamp of approval, gold would suddenly lose its authority as a medium of exchange and would cease to circulate as money. This, however, is true only if the government compels citizens to accept something else as money over gold.

Dr. Gary North explains how legal-tender laws were used by government to gain control over money for the purpose of later debauching it. He states: "In a free market no one is obliged to accept gold in payment, as Coogan implies. It is only because governments have declared gold to be legal tender that people are coerced into accepting it. But for all practical purposes, it is a law added after the fact. People already accepted gold and silver voluntarily. The State merely confirmed what was already the case. The danger came only when the State began to mint the coins, and later began to debase them, so that the legal tender laws had to be applied. People were then coerced by the State to accept debased currency at its old, pre-debasement, rate. But the State originally only *confirmed* what society had already determined, that certain goods are more marketable than others, and are therefore used as media of exchange — *money.*"

**Not An Abstract Index**

Another monetary misconception of the Social Creditists is one they borrowed from the Monetarists of the Chicago School, particularly the later writings of monetary theorist Irving Fisher. This is the idea that money is or should be a fixed, abstract measure of "value" or purchasing power. In *Money Creators*, Gertrude Coogan makes the assertion, common to most Social Credit advocates, that the goal is "stability" and that "Stability means *constant purchasing power* of a dollar in terms of things people buy (not gold — did *you* ever buy gold?)." In order to achieve this "stability," says Coogan: "The total *quantity* of money in a nation should bear a scientific relation to the volume of consumer goods which the nation has produced and has available for distribution."

This is the Monetarist fetish of the "stable price level" and is the result of looking at an economy collectivistically rather than as many individual transactions. Mises recognized this line of reasoning for what it is, the underlying fallacy of all socialism.

Because of their essentially collectivist approach and methodology, the advocates of a managed fiat currency — the Keynesians, Monetarists, and Social Creditists — have no coherent theory of economic value and they fail to discover that money does not measure value. Economic valuation — the motivation of all economic activity — is the product of personal preferences of people that vary from individual to individual and from moment to moment. Such acts of valuation are not susceptible to any kind of measurement. All we can say is that, if an exchange takes place between two men, the first giving up Commodity A in order to receive Commodity B, and the other giving up Commodity B to obtain Commodity A, then the first man values (desires) Commodity B more than he does Commodity A, while the reverse is true for the second man. The only things that are measurable are *prices*, the exchange ratios between goods. These exchange ratios, which may be expressed in terms of money, are not fixed quantities inherent in commodities themselves, but instead arise out of the interaction of the subjective value scales of individuals engaged in market dealings.

**The Stable Price Fetish**

Clearly, the Social Creditists believe that the function of money is to maintain a fixed level of prices in society. This is to be accomplished, according to Coogan, by a group of Monetary Trustees appointed by Congress. She writes: "As the Nation increased its productive efficiency — was able to turn out more consumer goods per worker — the money stream would have to be increased. The amount of increase necessary would be judged entirely by the movement of prices. If goods were increasing in quantity, but the quantity of money was lagging behind, prices would decline. Therefore the money quantity would be increased until that situation was corrected. Vice versa; if prices were rising beyond the points considered ample equitably to conduct the nation's business, the volume of currency would have to be decreased." (*Money Creators*, Page 251)

Notice that Coogan sees falling prices as something bad, something to be corrected by monetary manipulation — even though lower prices for goods and services are a blessing to everyone since more of the increasing goods and services can thus be purchased. In a free market, greater productivity and the resulting increase in the amount of goods and services bring about lower prices for those goods and services which are in greater abundance due to greater productivity. The case of the electronic calculator comes immediately to mind. Only a few years ago it took $300 to buy one; today, an equivalent or superior calculator costs less than twenty dollars! Digital wristwatches are another example now available to anyone for five dollars. Surely no one would view this as a "bad" development. Yet fiat-money economists contend that a "declining price level" is somehow an evil that must be cured by government.

The Monetarists of Social Credit propose that the government should inflate the money supply at such a rate as to prevent a declining price level as production rises. This is precisely the scheme advocated by Professor Milton Friedman.* Yet, as

*Milton Friedman's monetary views are a watered-down version of Keynesianism. The Keynesian and the Chicago School Monetarists share the same positivist method as well as their common opposition to a full gold-coin standard. While Keynesians and Chicagoans argue the fine points of their respective positions, they both advocate a "managed" fiat-money system and they ignore the rational monetary explanations of Ludwig von Mises. (For a theoretical refutation of Professor Friedman's monetary theories, see Hans F.

the pro-gold writer Joe Cobb (himself an ex-Monetarist) points out, this is still theft via counterfeiting:

"If declining prices would be the normal pattern under a free market system, the proposal to increase the money supply in order to keep the average level of prices from declining is in truth *a proposal to nationalize part of the increase in productivity*. Since the newly issued money that is supposed to cause just enough upward pressure on prices to keep them declining is legal tender, just like the old money that is already folded away in people's pockets, the government that prints it is also the first to spend it, and so the government reaps the fruit of other people's labor." ("The Myth Of The Stable Price Level," *The Freeman*, October 1980)

As a socialist conspirator, John Maynard Keynes knew what he was doing when he advocated inflationary fiat money. Many of the Social Creditists, however, do not. They naïvely believe they are defenders of Free Enterprise and capitalism while they are in fact advocating socialist schemes for its destruction.

Monetary inflation is still inflation even if prices do not go up — and this monetary inflation still results in the kind of economic distortions and malinvestments that bring about cycles of boom and bust. Unfamiliar with the Mises theory of what causes depressions, Coogan misses the fact that her money system does not escape this scourge.*

The function of money is to facilitate the business of the market by acting as a common medium of exchange. It is not its function to stabilize prices at some abstract level based on some mathematical index compiled from "baskets of commodities." Such schemes never work. The problem is how to make the monetary controllers abide by the fixed restrictions on money growth, considering the constant temptation to gain at the expense of others. History demonstrates that giving a monopoly over the creation of money either to government or to a politically privileged clique of bankers is like putting a dope addict in charge of the drug cabinet in a large hospital.

**Crypto-Keynesianism**

Gertrude Coogan and other Social Creditors share with orthodox Keynes-

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Sennholz, "Chicago Monetary Tradition In The Light Of Austrian Theory," in *Reason* magazine for October 1971.)

*Inflation, whether bank-credit inflation or government Treasury Note inflation, is the *cause* of depressions. Anyone doubting this need only read the first chapter of Murray Rothbard's *America's Great Depression*. Panics and depressions can certainly be *triggered* by the international bankers — but it is inflation that sets up the context which makes them inevitable. It should be kept in mind that "stable prices" are no guarantee of the absence of monetary inflation. As Rothbard points out on Page 154 of his book, "The fact that general prices were more or less stable during the 1920's told most economists that there was no inflationary threat, and therefore the events of the Great Depression caught them completely unaware. Actually, bank credit expansion creates its mischievous effects by distorting price relations and by raising and altering prices compared to what they would have been without the expansion. Statistically, therefore, we can only identify the increase in money supply, a simple fact. We cannot prove inflation by pointing to price increases. We can only approximate explanations of complex price movements by engaging in a comprehensive economic history of an era — a task which is beyond the scope of this study. Suffice it to say here that the stability of wholesale prices in the 1920's was the result of monetary inflation offset by increased productivity, which lowered costs of production and increased the supply of goods. But this 'offset' was only *statistical*; it did not culminate the boom-bust cycle, it only *obscured* it. The economists who emphasized the importance of a stable price level were thus especially deceived, for they should have concentrated on what was happening to the supply of money . . . ."

sians a strong belief in the "blessings" of inflation. Parroting the pseudo-economics of Lord Keynes, Coogan declares: "More money increases the *effective* demand, and less money decreases the *effective* demand for goods." (*Lawful Money Explained*, Lecture Number Four)

Compare that with the more elaborate articulation by Keynes himself: "There will be a determinate amount of increase in the quantity of effective demand which, after taking everything into account, will correspond to, and be in equilibrium with, the increase in the quantity of money." (John Maynard Keynes, *The General Theory Of Employment, Interest, And Money*, Harcourt, Brace, & World, 1936)

In another passage of her book, Coogan offers the following collectivist nonsense: "Congress has the *power* and *mandate* to *create*, and provide at all times a volume of money sufficient to maintain full employment, production, and trade." (Lecture Number Nine)

Those familiar with Keynes will immediately recognize this goal, as well as the mechanism for its alleged achievement, as one of his most famous economic doctrines. But it is as fallacious as it is famous. It is the familiar Keynesian call to "prime the pump" with ever larger doses of inflation in order to spur "effective demand" so as to "stimulate the economy" and assure "full employment."

The notion that a continually increasing money supply is necessary in order to have an expanding economy has been refuted by Mises and his followers. They argue cogently that *no* increase in the supply of money and credit is necessary for an expanding economy and full employment if prices and wages are permitted to fall as well as rise in a free market. Unemployment results when the government attempts to keep wages and prices up artificially, such as has occurred during the New Deal and ever since. But paper-money proponents do not believe that "adequate" investment can be financed out of voluntary savings alone, and thus they advocate an increase in credit via paper-money inflation as both necessary and beneficial. Common sense should tell them that increasing the quantity of fiat money does not cause an increase in the amount of real wealth produced overall. Investment is always restricted to the *actual* amount of *real* savings; that is, to the amount of current consumption forsaken in favor of investment in future capital goods. Trying to finance investment by artificially increasing the supply of credit only veils this fact, and preempts voluntary saving and investment decisions.

Moreover, an increasing money supply necessarily leads to cycles of uneconomic booms and traumatic busts, and this is true whether the new money is issued by private bankers via fractional-reserve operations or by the government itself through paper currency. Whatever its source, the phony money always misdirects investment and production. As economist Gary North succinctly puts it: "Counterfeit money produces 'counterfeit industries' and these can be profitably sustained only through the continuation of monetary inflation."

The apostles of National Fiat Currency have fallen for the "something for nothing" fallacies of Keynesian economics. Gertrude Coogan writes: "Increases in currency would be made partly to defray the expenses of the government and in lieu of taxation." (*Money Creators*, Page 251) Doesn't she realize that *someone* has to pay for the expenses of government? Does she not understand that inflation is just a hidden tax, made more insidious by the fact that it is indirect instead of visible and direct? No, she is apparently so naïve as to believe that "the purchasing power created at the original source benefits all." (*Money Creators*, Page 262) Looking at the economy from the point of view of a collectivist, and never seeing how inflation performs at the individual level, Coogan seems to think that everyone in society will have equal and simultaneous access to the government's funny money. Dead wrong! Those who receive the new phony money *first* will benefit at the forced expense of those who receive the new money later.

Coogan never really explains how the new Treasury money would enter the economy. She states only that the government would "pay" the new money into use. What would happen is this: Unbacked, counterfeit bills are printed by the Treasury. The federal government takes these bills and purchases goods and services with them. Those corporations and individuals selling to the government now have new, counterfeit money at their disposal. But, this new money takes on value only by diluting the value of all the money already in circulation. The favored firms and individuals then go into the market and buy goods and services which they would not have been able to afford previously. Other people, unfavored by the government bureaucrats, do not have counterfeit bills at their disposal. They had planned their purchases at the pre-inflation prices. Now, however, those prices have been bid up by the new money, or have not been permitted to fall as they otherwise might have. This is because of the new phony Treasury notes in circulation. All those who did not have immediate access to the new money are hurt because they either have to pay higher prices for the things they want to buy or restrict their consumption and lower their standard of living.

This is legal plunder, political robbery, but politicians and their economic stooges know that few people understand that monetary expansion is actually a form of indirect taxation; consequently, they can increase government expenditures without having to impose the more obvious direct-tax confiscations. Social Credit populists are taken in by, and promote, this insidious form of theft.

In contrast to inflationary Keynesian or Social Credit fiat currency — which necessarily involves theft via legalized and institutionalized counterfeiting — gold and silver coins are real wealth which does not impose a forced loss on other human beings. (Also, it is much more difficult to counterfeit coins of precious metal than merely to print up fiat bills.) Unlike fiat currency, then, gold does not need to be politically "managed." Because it cannot be created inexpensively and without limit at anyone's whim, gold money does not have to be a monopoly privilege of anyone to retain its value as money.

**Debt-Free Money?**

One of the most compelling arguments used by the Social Creditists is that their state-issued money would be "debt free" since it would no longer be necessary for the national government to borrow phony money from the privileged private counterfeiters (*i.e.*, the Federal Reserve or private bankers) and then pay real interest on that borrowed money. After all, why should we pay interest on the money we carry around in our pockets? The Social Creditists point out that Abraham Lincoln's "greenback" money saved Americans untold millions in interest payments they otherwise would have had to pay if Lincoln had borrowed the money from the bankers. This is absolutely true. Why should we pay real wealth to private counterfeiters for the privilege of borrowing the phony money they create?

What is ignored is that prices doubled during the four-year span between 1861 and 1865. It has been roughly estimated that between two and four times as much money was in circulation in 1865 as had been present in 1860.

Aggregate price and wage figures conceal a great deal. Which groups benefited and which ones paid more than their share of the costs of the War Between The States? According to Wesley Clair Mitchell, a major historian of the greenback period, "in no case did the wage-earners escape a considerable loss of real income . . . . While the fluctuations of real wages are seen to have been by no means uniform in all cases, there is no industry in which the advance in money wages kept pace with the advance in prices." He estimates that currency depreciation amounted to "a confiscation of perhaps a fifth or sixth of real incomes," and he further maintains that "the chief cause of the extraordinary advance of American prices between 1862 and 1865 was the substitution of irredeemable paper for specie as the money in which prices were quoted." (Wesley C. Mitchell, *A History Of The Greenbacks*, Chicago, University of Chicago Press, 1960; and *Gold & Wages Under The Greenback Standard*, New York, Kelley, 1966)

According to Mitchell, farmers (at least in the East) were also net losers due to the inflation, being "among the most unfortunate" producers. If he is correct, then it is doubly ironic that the two groups which lost the most because of the greenbacks favored by Social Creditists were the very workers and farmers whom populists have claimed to represent! Americans were in fact crucified on a cross of paper.

But wasn't the power of the bankers curbed by the government resorting to its own fiat money to pay off part of its debts? Assuredly not. In fact, they *wanted* Congress to pass the greenback legislation. Senator John Sherman of Ohio observed as much even as he voted for the greenback money. The bankers used the greenbacks as legal-tender reserves for new rounds of inflationary banknotes expansion. You see, they had run out of the gold reserves legally required as a fractional-reserve base to support their notes; they needed something that was *legal tender* to back up their note issues. The paper "greenbacks" were declared legal tender by Congress and then used by the banks for their own purposes. (Keep in mind that the bankers' business is lending money. The more money they have to lend, the more money they stand to make. Banking can be a volume business.)

The legend the Social Creditists have built around Abraham Lincoln as an opponent of the bankers is far off the mark. As a Whig in the 1830s, Lincoln opposed the hard-money Jacksonians and actually defended Nicholas Biddle's Second Bank of the United States. As President, however, Lincoln apparently had little part in promoting the greenback legislation. The main leader — the "Father of the Greenbacks" — was Congressman E.G. Spaulding,

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a banker from Buffalo. Moreover, although Lincoln signed the bill which authorized an additional $100 million in greenbacks on January 10, 1863, he severely criticized the further issuance of these bills at that time. Instead, he wanted a fractional-reserve national banking system — still another unconstitutional intrusion by government in the area of money. (See the excellent article by Gary North in *Gold Is Money*, edited by Hans Sennholz, Westport, Connecticut, Greenwood Press, 1975, Pages 148-149)

We should point out that gold or silver coins in one man's pocket do not impose any debt on someone else. In an honest, 100 percent reserve banking system, there would be no fraud connected with them as there is with our current funny money. Gold and silver coins do not have to be "borrowed into circulation."

**Public Monopoly**

The proponents of Social Credit also make much of the fact that America's present central bank, the Federal Reserve System, is private — not part of the national government. This is true. Bryant Motley, an economist at the San Francisco Federal Reserve, admits it openly. Although the "Fed was created by Congress, it is separate from the government. It operates on its own money — interest on Treasury securities which represent part of the Federal Debt — and doesn't have to go to Congress or anyone else to plead for a budget. It is exempt from Civil Service requirements and General Accounting Office audits.

Indeed, if any more proof were necessary, in a recent court decision in the case of *Lewis vs. United States*, the Ninth Circuit Court ruled that the Federal Reserve banks are private, separate corporations owned by the commercial banks in their respective regions.

Although the Fed is "private," it must be emphasized that its origins were political and its powers are governmental. It functions like a political bureaucracy. It is not "private enterprise" but *privileged* enterprise.

We must pause here to examine another myth of Social Credit — namely, that the Fed is directly owned by a "Class A" list of stockholders and that they profit greatly from the interest we pay to the Fed. First, there is no evidence whatever of the existence of this group of "Class A" stockholders who allegedly own and operate the Fed directly. Second, the Social Creditists claim that the Fed makes hundreds of billions of dollars in profit. In fact, the Fed owns only about twelve percent of the Treasury's outstanding debt, and of the interest it receives on this debt it keeps less than about two billion dollars — all the rest being turned back each year to the Treasury. The Social Creditists say that if the interest cleared by the Fed were turned over to the Treasury it would be all right. But about eighty-five percent of it *is* turned back to the Treasury.

The Fed benefits its friends in the banking and Wall Street community, all right, but most likely by making available prior knowledge of which way interest rates and money supply are going. It would be naïve not to suspect that Paul Volcker has conversations with his former boss, David Rockefeller, or that other individuals in the Old Boy Network have friends on the Open Market Committee of the Fed. More important, in its role as lender of last resort, the Fed benefits the *Insiders* by bailing them out of bad loan practices. Thus they have no-fault banking rather than Free Market banking. The point is that the interest payments received by the Fed are by no means the important source of benefit trumpeted by the Social Creditists. They simply miss the point.

Far worse, Social Credit enthusiasts want to give the Fed's monopoly to create money over to the national government in Washington, D.C., providing it with a total monopoly on all money creation. No other money would be permitted. Gertrude Coogan, for example, would ban all private bank notes, even when backed by 100 percent reserves! The government's Treasury Notes, however, are to be completely *unbacked*, and these are to be the only lawful money to circulate in society. There is to be no private coinage whatsoever. The right to own property in the form of money metals or I.O.U.s for these metals would be revoked. And yet Coogan and her comrades claim to be defenders of capitalism and private property!

Again we quote Dr. Gary North in his critique of the works of Gertrude Coogan: "She has admitted that money manipulation is the chief cause of economic slavery, yet she would turn the power of money manipulation and money creation over to the State, to be used only by the State, as a *legal monopoly*! She has exceedingly great confidence in the reliability of the State bureaucracy, one tenet of faith which is not generally recognized as part of conservative credo." (*Christian Economics*, Page 131)

If the banks or private counterfeiters print the bills, it is recognized as theft by the Social Creditists; if, however, the national government does the same thing, they view it as sound economic policy. This is the Keynesian double standard of the papercrats. Instead of the bankers, we would have our elected representatives debauching our money directly through the Treasury — and without the restraining factor of interest rates holding them back. The impetus for gung-ho inflationism would be even greater than it now is.

Professor Hans Sennholz, one of Ludwig von Mises's most eminent disciples, has observed: "Money is inflated, depreciated and ultimately destroyed whenever government holds monopolistic power over it."

Like every ordinary socialist, Coogan and her Social Credit comrades want not to abolish central banking, but rather to nationalize it in the name of "the people"! Counterfeiting is theft, no matter who does it. But Coogan indignantly writes: "Another fear fostered by the money creators (in their efforts to strangle money) is the fear very commonly held that once the government starts to issue money there will be no end to it. But let us reflect upon this libel of the people's own chosen representatives . . . . *Statesmen* would fill our Congressional Halls if the money system were honest."

This is the old myth and fallacy of democratic socialism — that elected "representatives" act in the interests of "the people." Sure they do — but *which* people? The same crowd that controls the money now would in all likelihood also control the Treasury Notes under Social Credit as well. Like all other collectivists, the Social Creditists fail to perceive that government never intervenes as a neutral agent for the "common good" of "the people" — it always tends to help some at the forced expense of others. Special interests *always* control government programs run in the name of the people.

It would make little difference if the Federal Reserve *were* owned and operated directly by the national government instead of being, as it is now, a government-privileged, privately controlled central bank. Merely turning the Federal Reserve and its power to create fiat money over to the federal government — as these misguided populists have suggested — will not solve the problem. Can you imagine how much hyper-inflationary currency would be created by Tip O'Neill and Teddy Kennedy if they were in charge?

Nor would the problem be solved if the privilege to create and control money were entrusted to the U.S. Treasury, a group of Monetary Trustees, or some other governmental bureaucracy. The essence of the monetary problem (and all the evils it spawns) is that "money" is created out of nothing and that citizens are forced by legal-tender laws to accept this counterfeit money. The *Insiders* could do this almost as easily directly through the government as they now do through the Federal Reserve System. A money monopoly by the national government is a false and dangerous alternative.

The real solution is to prevent *anyone* — including the government itself — from having the exclusive legal privilege to engage in the fraudulent activity of counterfeiting claims on real wealth. Only a policy of *laissez faire* will solve the money problem. Monopoly money is no answer, as Congressman Ron Paul (R.-Texas) explains:

"Under the strict rules of the free market — private ownership and individual liberty — the monetary system could never have been abused as it has. Gold and silver would be the only currency, and inflation would be impossible . . . . If the purpose of government is to preserve freedom, and punish fraud, and the people are allowed to choose, gold money will result. Paper will vanish and the special interests who benefit from paper will lose the power they now have to control the government and the economy."

**It Is Unconstitutional**

The Fifth Plank in the *Communist Manifesto* of 1848 calls for "Centralization of credit in the hands of the State, by means of a national bank with State capital and an exclusive monopoly." This is also what Social Creditists are pushing. It is the Marxist monetary program to destroy capitalism from within by tampering with the medium of exchange. Yet, most advocates of a National Treasury Money would recoil in anger at the label "Marxist."

They even have the effrontery to claim that they are advocating the only "constitutional money"! Everywhere in their writings we read their assertions that the U.S. Constitution gave to Congress the full and *exclusive power* to establish and administer the nation's money system. They tell us over and over that *only Congress* can constitutionally create, maintain, or cheapen our nation's money. But this notion is totally false.

First, nowhere in the Constitution is the national government granted any authority to issue paper currency or fiat money of any kind. Article I, Section VIII, Clause V, declares that Congress has the power "to coin money" . . . not to *print* it. An examination of the general historical background and of the proceedings at the Constitutional Convention (preserved for posterity by the diary of James Madison) clearly shows that the practice of government issuing irredeemable paper as legal tender cannot be justified under the Constitution. And not only *irredeemable* paper was abhored, but the issuance of *any* kind of paper bills ("bills of credit") was opposed by the overwhelming majority of the constitutional delegates.

Madison writes that the Convention's keynote speaker, Edmund Randolph, "inveighed against 'the havoc of paper money' in his indictment of the Articles of Confederation." The American revolutionaries had had terrible experiences with the currency which had been issued by the Continental Congress to finance the war of secession against Britain.

They learned their lesson well: Do not trust paper money. An excerpt from James Madison's notes reveals that "Mr. Govr. Morris moved to strike out 'and emit bills on the credit of the U. States' — if the United States had credit such bills would be unnecessary; if they had not, unjust & useless." And, in another passage, Madison observes: "Mr. Elseworth thought this is a favorable moment to shut and bar the door against paper money. The mischiefs of the various experiments which had been made, were now fresh in the public mind and had excited the disgust of all the respectable part of America. . . . Paper money can in no case be necessary."

The antipathy of the Founding Fathers to paper money is further demonstrated by the Convention's prohibitions of state monetary powers. Article I, Section X, reads: "No state shall . . . coin money; emit bills of credit; make any thing but gold and silver coin a tender in payment of debts."

Although the national government was not explicitly prohibited from issuing paper bills with legal-tender status, as were the state governments, such an express prohibition unfortunately was thought to have been superfluous. The states had powers and constitutions pre-dating the U.S. Constitution. The federal charter did not grant to the states any new powers, but merely imposed limitations on already existing powers. The national government, on the other hand, derives all its powers from the Constitution. The government was to have no powers except those expressly granted to it. If a power is not mentioned, then the national government does not have it and must not assume it. Paper money was out.

As Luther Martin, one of the very few advocates of paper money at the Convention, later bitterly remarked: "The Convention was so smitten with the paper money dread that they insisted that the prohibition be absolute." In other words, the Founding Fathers wanted to prevent the government from doing precisely what the Social Creditists wish it to do. And the Constitution in no way authorized Abraham Lincoln or Congress to levy the first federal direct tax on incomes and impose the indirect tax involved in the depreciating greenbacks — the Republic's first legal-tender paper money. The Constitution has simply been ignored.

Second, no monopoly over money was granted even to Congress by the Constitution. The very authority to coin money was not granted as an *exclusive* prerogative of the national government. At the time, Americans used several monies — including coins minted by foreign governments. In fact, one of the most popular coins (very widely used as money in America) was the Spanish-milled silver dollar, the coin from which we got the name of our own money. (The word *dollar* itself comes from a widely circulated

Bohemian coin, the *thaler*, popular in the Sixteenth Century.) Privately minted coins were also permitted. Yet Coogan and other Social Creditists attack the right of our people to choose their own money.

Nor does the Constitution anywhere grant Congress any authority to pass legal-tender laws, and the states may make *only* gold and silver coins a tender in payment of debts. If, moreover, the national charter does not permit Congress to delegate or grant any monetary privileges to a private central bank, neither does it grant any authority to the national government itself for engaging in any banking operations. It does not even grant the national government the authority to lend money.

Finally, the advocates of managed currency observe that the Congress is granted the power "to regulate the value" of money. This, too, is untrue. It is clear from the context of Article I, Section VIII, Clause V that this meant only that Congress could set for itself the weights and fineness of the coins (of gold and silver) that it could mint. We know this because the same Section mentions the function of setting the standard of weights and measures. Just as the Founders clearly did not intend Congress to have the power to change the number of inches in the foot by arbitrary whim from time to time, so, too, they never thought Congress would have the power to debase coined money by changing its content. No government can ever "regulate the value" of money in that sense. (See the "Economics" column by Clarence Carson in *The Review Of The News* for November 18, 1981)

In short, Social Credit is unconstitutional, misreads the Constitution, and is based on historical misunderstanding.

**Current Proposals For Reform**

As more and more people find out about the Federal Reserve and recognize that its inflationary policies caused the Great Depression and our current troubles, controversy about what to do about it will be heightened around our country and on Capitol Hill. When interest rates once again climb to new highs, as they inevitably must during the peaks of the inflationary cycle, there will be a renewal of intense debate over the Fed's power and independence. The issue, unfortunately, seems not to be whether the Fed's powers are legitimate, but rather one of "accountability." Milton Friedman states: "It is not right in a democracy [*sic*] to give the kind of power we now give to a group of unelected people in the Federal Reserve."

Several proposals to give Congress or the Treasury more direct control over Fed policy and interest rates are being discussed on Capitol Hill. This, again, is in spite of the fact that our Constitution gives no authority to Congress to regulate interest rates or engage in money manipulation.

A Senate bill to "reform" the Fed, introduced by Minority Leader Robert Byrd, has thirty-three co-sponsors. Democrat Jim Wright's House bill to do the same thing has 101 co-sponsors. Radical Walter Fauntroy of the District of Columbia is Chairman of the Subcommittee on Domestic Monetary Policy, and he too has a proposal to "reform" the Fed. These and other bills seek to have Congress take more control over monetary policy and leave less discretion to the Federal Reserve.

Undoubtedly the most "radical" such proposal is a series of Resolutions and bills offered by Left-wing Democrat Henry B. Gonzales of Texas. A rabid Social Creditist, Gonzales wants to repeal the Federal

Reserve Act and transfer the functions formerly carried out under that Act to the Department of the Treasury (H.R. 587). He has also introduced a lengthy and complex bill which would vest in the Secretary of the Treasury "all functions relating to the examination and supervision of federally insured banks." In other words, if this bill passed, control over our money and banking would be transferred from C.F.R. member Paul Volcker to C.F.R. member Donald Regan! It is just the old shell game.

Some enemies of the Federal Reserve point out that there are provisions in the Federal Reserve Act, itself, for the government to buy back the Fed from its current shareholders. Fine. Buy the Fed, then *abolish* it and its unconstitutional functions. Don't merely transfer its power to the government. Then again, if the Act was unconstitutional in the first place, as it certainly was, why do we have to buy it back? Why not just dissolve it?

The point to remember and emphasize is that the shell-game argument over whether socialist bureaucrats or the international bankers should have a monopoly on printing funny money is one of false alternatives. Whether we label ourselves Conservatives, Libertarians, Constitutionalists, or Americanists, we mustn't get sucked into the Social Credit trap. The only thing that will stop politicians and the *Insiders* of banking from controlling our economy and debasing our money is to have an unmanaged, fully redeemable currency that is backed by the tangible wealth of gold and silver. A free society does not need a central bank, either private or governmental.

Although we share the enmity of Coogan and company for the banking conspirators, Conservatives should not fall for the nostrums and alleged reforms of the Social Creditists. Either the same group would still be in control, or we would merely substitute one tyranny for another.

Frankly, we don't think that the attempts in Congress to "democratize" the Fed will come to much as long as the recovery proceeds. If the Fed slams on the brakes to prevent Reagan's re-election in 1984, however, and the economy does not bounce back in 1985, the "Liberals" will be screaming *en masse* for monetary policy to be taken away from the Fed and invested in Congress. What we are seeing is the Outside Left contending with the Inside Left.

At some point the Big Boys will explain the facts of political and financial life to the "Liberal" Social Creditists. In the meantime, the controversy will grow and many naïve but well-meaning Conservatives will get sucked into the shell game instead of working, as they should, for an honest gold-coin standard. ■ ■

## CRACKER BARREL

■ Bad writing, says the *Wall Street Journal*, is a malady for which there is no quick cure.

■ Admiral Hyman Rickover reminds us that we must learn from the mistakes of others because no one lives long enough to make all of them himself.

■ William Ruckelshaus, the new E.P.A. Administrator, is the man who banned DDT, one of the century's greatest discoveries, reports Dr. Petr Beckmann.

■ You're really not a professional procrastinator, a professional tells us, until you put off until tomorrow the things you've already put off until the day after yesterday.

■ Panama, because of a bend in the isthmus, is the only place in the world where one can see the sun rise on the Pacific Ocean and set on the Atlantic.