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# The lost science of money

Stephen Zarlenga
*American Monetary Institute, Valatie, New York, USA*

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**Abstract** *The true meaning of economics is "the law of the household". This implies a system of fiscal management that serves human beings as individuals, and the societies they form. Modern economics, whether of the prevailing free-market model or the varying schools of socialism, tends to subordinate human beings to quite rigid "models". Often, these models pay too little regard to social or cultural factors, and to sheer human variety. Stephen Zarlenga, an American economist, argues that the root of this inflexibility lies in Western attitudes towards money. In the days of Aristotle and Plato, and to a large extent in the Roman and Medieval eras, money was viewed pragmatically, as a convenient economic tool. In the modern era, paradoxically, it has assumed a quasi-mystical significance, as if it can override human concerns. This approach to money has been disastrous and inefficient. The task facing economists should therefore be to reintegrate money fully into the public sphere. This requires cultural and psychological shifts, as well as pragmatic political reforms.*

The fiscal problem has its roots in the structure and control of our monetary system and I intend to show how that structure has ultimately been based on a false or inadequate concept of the nature of money. The problem is that "money" has not been accurately defined.

Perhaps, the chief failure of economics is its inability, from Adam Smith to the present, to define or discover a concept of money consistent with logic and history. Economists rarely define money, assuming an understanding of it. It is still being argued whether the nature of money is a concrete power, embodied in a commodity like gold; or whether it is a credit/debit issued by private banks. Does its value come from the material of which it is made? Or is it merely an abstract social power – an institution of the law, having value because it is accepted in exchanges due to the sponsorship of government?

The correct answer leads to conclusions on the proper monetary role of government; whether the power to create and control money should be lodged, as at present in a somewhat ambiguous private issuer – the Federal Reserve System and its member banks – or should be wholly reconstituted within government. An accurate concept of money will light the way to solve the present fiscal crisis.

## In defining money, methodology is crucial

We have two basic approaches to understand money: a theoretical method based on logic; and an empirical approach based on experience or history. Practitioners of the two methods arrive at very different conclusions. Theoreticians usually support private commodity money and private credit money. Historians normally want a much larger role for government.

Alexander Del Mar, the great monetary historian wrote, "As a rule political economists. . .do not take the trouble to study the history of money; it is much easier to imagine it and to deduce the principles of this imaginary knowledge".

Today, we will examine some historical cases where important principles clearly stand out.

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Let us start with Aristotle (384-322 BC) who gave the culmination of Greek thought and experiment on money around 330 BC:

"All goods must therefore be measured by some one thing... now this unit is in truth, demand, which holds all things together... but money has become by convention a sort of representative of demand; and this is why it has the name nomisma – because it exists not by nature, but by law (which in Greek was nomos) and it is in our power to change it and make it useless". So Aristotle calls money a creature of the law. Not a commodity from nature but an abstract social institution. Its essence is not tangible wealth in itself, but a power to obtain wealth. This is regarded as a supremely important distinction – between money and wealth. If you are always trading in "things" it is just an advanced form of barter.

*Plato agreed with Aristotle and advocated fiat money for his Republic*

"The law enjoins that no private individual shall possess or hoard gold or silver bullion, but have money only fit for domestic use... wherefore our citizens should have a money current among themselves but not acceptable to the rest of mankind..." (*Laws*) "Then they will need a market place, and a money-token for purposes of exchange" (*Republic*).

Therefore, both Aristotle and Plato noted the paramount principle – that the nature of money is a fiat of the law, an invention or creation of mankind. This principle, part of a lost science of money, must now be relearned in the 3rd millennium in order to achieve the monetary reforms needed to move back from the brink of nuclear disaster, to move away from a future dominated by fraud and ugliness, toward a world of justice and beauty.

Significantly, the term "nomisma" is seldom found in early Greek texts. It is in Herodotus in the 400s BC, but not again until Aristotle, over a 100 years later. This concept of money was probably suppressed in an ongoing struggle between oligarchic forces – a kind of "Old Boy Network" relying on personal relations, arrayed against public money, and the developing, more democratic, public sphere of the Greek Polis, which introduced and controlled the nomisma payment mechanism.

This "private vs public" battle for the control of the money power is part of a great ongoing social battle recurring throughout history to this day. This factor shapes the most important outcomes determining how well a money system works. A good system functions fairly; helping the society create values for living. A bad one obstructs the creation of values; places special privileges in the hands of some to the disadvantage of others, and promotes unfair concentrations of wealth and power, and disharmony and social strife.

## Public money has a superior record

Now it may be surprising, but the historical record actually shows that publicly controlled systems function much better than private ones. Furthermore, it shows that the concept of money – how money is defined – usually determines whether the system will be publicly or privately controlled. So there is a lot at stake in how a society defines money.

Here are two ancient cases from Greece and Rome based on Aristotle's nomisma concept of money:

*Lycurgus's Spartan Pelanors*

Plutarch describes an example of this nomisma in his discussion of Lycurgus of Sparta's 8th century BC monetary reform, aimed at a society where wealth had become overly concentrated. Lycurgus banned using gold and silver and instituted iron slugs called Pelanors for Sparta's money system. Furthermore, those iron pieces were dipped in vinegar while hot, to render them brittle and to purposely destroy any commodity value that they had as iron! They received their value through legal sanction. This system of iron nomisma lasted about 350 years and Sparta became a premier power. Plato confirms that Sparta's iron money was rendered useless with the vinegar treatment, and remarked that it was based on the "Dorian System" indicating the existence of an earlier tradition.

*Republican Rome used a similar system*

Rome isolated herself monetarily, basing her money on copper. This "disenfranchised" the gold/silver hoards and therefore much of the power of the East. While gold could still be traded in Rome as merchandise; without the monetary power, the ability of the East to control or disrupt Rome's money would be reduced and she had a better chance to control her destiny.

Republican Rome used Aristotelian nomisma, where bronze discs were valued far above their commodity values. Under this money, she grew powerful, staying independent from the East.

When the US rose to become the dominant world power, we did not have this advantage of monetary isolation. But during the two great crises of our nation – the Revolutionary War, and the Civil War – we erected money systems independent of Old World Power: the Continental Currency and the Greenbacks. And though both have been severely criticized, they served our nation well.

Rome won the Punic wars, but her money system was destroyed in the process and she regressed to the metals systems of the East. First to silver, and then with the imposition of Empire, Julius Caesar established a gold standard based on the weight system of the ancient temples. The growth of plutocracy accelerated; wealth concentrated in its hands and the population degenerated into slavery. Adopting the East's commodity money caused power and even the Empire's headquarters to shift eastward to Byzantium.

Today, one often hears moralistic warnings about Roman inflation destroying the Empire, but on closer examination, it appears that deflation was a much greater problem. The breakdown of law and money continued to operate negatively, the one upon the other for centuries, in a slow downward spiral of societal decay, especially in the West, where the administration could not stop the city of Rome from being temporarily overrun. In this context the concept of money regressed back to crude metallism.

Charlemagne attempted to re-institute money in the West around 800 AD. But minting his pennies depended on working slaves to the death in his silver mines. When Charlemagne's Empire ran out of conquests and slaves, the money system faltered. This plunder/conquest/slavery basis of precious metals systems continued well into the 19th century. Modern 19th and 20th century moneys claiming to be precious metals systems, depended on an element of fraud.

Europe's monetary systems became more functional only after the plunder of the Americas. The total loot taken at gunpoint from the Indians from 1,500 to 1,700, was over 1,200 tons of gold and 60,000 tons of silver! These amounts far overshadowed European supplies, and prices rose about 400 to 500 percent during that time.

The theft was their minor offence. Estimates place the Indian population under Spanish control at 32 million souls and in less than 40 years they killed about 15 million of them; working most to the death in silver and gold mines. For example, at a mine near Mexico City one report states:

For half a league round the mine, and for a great part of the road to it, you could scarcely make a step except upon dead bodies or the bones of dead men. The birds of prey coming to feed on these corpses darkened the Sun.

Spain did the dirty work on the ground, while England and Holland formed companies – privateers – to raid the Spanish fleets intercepting much of the loot. This was a very rare period where the supply of new gold actually kept pace with population growth. Historically, it has not done this, and so a gold money system has usually been a formula for deflation. As this "blood stained money" entered Europe it had profound effects, forcing great structural changes in economies, distributing wealth more broadly and creating a "Renaissance of the North." The Reformation is usually given the credit for the dynamic developments this influx of new money helped produce in northern Europe.

This inflow of metal held back monetary thought in metallism. Even so, the principles of the science of money re-emerged from time to time as in England's 1601 Mixt Moneys case, or the writings in Bishop George Berkeley's *Querest* in 1735.

But in 1776, Adam Smith's *Wealth of Nations*took a giant leap backward and formally obliterated any concept of money in the law, by defining money this way: "By the money price of goods it is to be observed, I understand always, the quantity of pure gold or silver for which they are sold, without any regard to denomination of the coin".

He thereby regressed the concept of money backwards from an advanced nomisma based in law, not just back to a "Moneta" level of unlimited coinage, but all the way back to "Ponderata", pure metal by weight. This was where the concept of money had been before the Romans arrived in England – even more backward than the Ancient Oriental money systems which had at least monetized agricultural commodities.

The Bank of England had advanced to abstract paper money 80 years earlier; not in theory, but in practice. Adam Smith regressed to commodity money, not in practice, but in theory. His theory applied to their practice would cause confusion and create mystery to this day. (LSM, Chapter 12) Interestingly, Karl Marx followed Smith's misdefinition of money.

The Bank of England had usurped England's "money power" from the Crown in 1694, after Dutch William III of Orange took over England. It signalled a recovery of the science of money, but it was organized privately for the power and profit of a small group instead of the whole nation. Recounting the stealth with which this "revolution bank," was formed, bank founder William Paterson remarked:

"The very name of a bank or corporation was avoided, though the notion of both was intended, the proposers thinking it prudent that a design of this nature should have as easy and insensible a beginning as possible... But it was found convenient to put it to hazard and expose so much of the nature of the thing... as was needful to have it espoused in Parliament". (LSM, Chapter 11).

Until then England's monetary power was in the Monarch's hands. But from this point, bank of England credits – its notes and book credits – would be substituted in place of public money.

This has promoted a confusion between credit, and money, to this day. But they are different things. Credit depends on the creditor remaining solvent. Real money does not promise to pay something else. Credit can legally be improperly made into money, but it's not itself money. Money is on a higher order than Credit. It is unconditionally accepted as payment. Monetizing bank credit places special privileges into the hands of bankers, to the detriment of the nation. Furthermore, "Credit expands when there is a tendency to speculation, and sharply contracts just when most needed to assure confidence...", wrote Henry George.

Those behind the Bank of England obscured the real source of the Bank's power – its legal privilege – its notes were accepted as money by government.

Using the principles of money for such private purposes produced harmful results: 120 years of near continuous warfare, spawning an unpayable national debt, leading to excessive taxation which led directly to horrors such as the Irish Potato Famine. [Before then, when a nation's money system was used for taxation, the revenue generally aided the society at least in terms of what a Republic or King thought was needed.] But private moneys like the Bank of England's concentrated society's resources into a few hands, crippling the possibility for government to function properly, leading to a growing contempt of government.

### The 250 year attack on government

The attack on government originated largely in Adam Smith – in his efforts to keep the monetary power within the Bank of England. Smith glorified the Bank and obscured its private ownership calling it as a great engine of state. He attacked government issued money.

"A revenue of this kind has even by some people been thought not below the attention of so great an Empire as that of Great Britain...But whether such a Government as that of England – which, whatever may be its virtues, has never been famous for good economy; which, in time of peace, has generally conducted itself with the slothful and negligent profusion that is perhaps natural to monarchies; and in time of war has constantly acted with all the thoughtless extravagance that democracies are apt to fall into – could be safely trusted with the management of such a project, must at least be a good deal more doubtful". (Adam Smith, *Wealth of Nations*).

Smith's insulting the English Government marks the modern beginning of a relentless attack on society – the belittling and smearing of its organizational form – government. Smith also inadvertently illuminates the major purpose of this attack: – to keep the money power in private hands.

To summarize the argument: the nature of the money power is socially derived, not one originating in the activities of private corporations. Because of its great importance to all, control over the process belongs under public authority. Both logic and history show that its not safe to delegate this power, and certainly not acceptable to allow its usurpation. I am suggesting, therefore, that the nature of human affairs requires government to have four branches, not three; the fourth branch to embody and administer the monetary power.