**Money and Democracy**

by Dave Lewit\*

Money has been at the heart of almost every popular rebellion since the European settlement of North America. The War for Independence flaunted the slogan “no taxation without representation”.  Shay’s rebellion was a reaction to taxing farmer-veterans to pay wealthy war-bond holders. New England movement for secession—largely based on merchants’ opposition to trade restrictions during War of 1812.  Texas secession from Mexico—white settlers wanted slave labor.  Civil War—Southern planters wanted slave labor.  Indian wars—for land and gold as well as  “manifest destiny”.  And so on.  Each also had an ideological component demanding rights—a basic aspect of democracy, whether principled or rough “freedom”.

Is there another, larger rebellion brewing in America now, in the midst of profit-driven corporate takeover of culture as well as economy and government?

The American Revolution, according to Benjamin Franklin, was critically a result of British suppression of home-made currency in the colonies of Pennsylvania, Delaware, New Jersey and New York, forcing reversion to interest-loaded borrowing from London banks.(1)  Decades after the revolution lending was centered in New York, whose banks were demanding 24-36 percent interest for money to enable President Lincoln to prosecute his war against the secessionist South.  Lincoln decided instead that his Treasury issue the needed money without interest, promising payment—without specifying what kind or when—for those who did not trust the United States to honor this currency.  This “greenback” currency was highly successful as payment for military service, war materiel, taxes, and all commercial transactions—the US approaching global top rank in industrial development, technology, and agriculture.

Lincoln’s assassination a few years later may have been motivated in part by his disregard of the banker’s presumed share.  Within a few more years greenbacks had been stopped in favor of debt-bearing money from banks.(2)

**False Nationalization—The Federal Reserve**

So now we come to the framework of our present situation.  In 1910, following the financial panic of 1907, key officials of the US Senate and Treasury Department met secretly with representatives of J. P. Morgan Company and four other giant banking firms to edit the proposed Federal Reserve System (the Fed).  Heralded by legislators, that system was supposed to permanently prevent panics and stabilize our economy.  The language of the proposal was deceptive, and among others populist leader William Jennings Bryan, who had become President Wilson’s secretary of state, was persuaded that the Fed would be a government agency and would supply the nation’s money debt-free.(3)

The Fed was established by law in 1913 as a privately-owned banking system authorized to create money ex nihilo (literally “out of nothing”—by mere ledger entry) and extend that credit at interest to the US Treasury and all federally-chartered banks and those state-chartered banks which were Fed members.  At the time Republican Rep. Charles A. Lindbergh, Sr., called the Act “the worst legislative crime of the ages” and asserted that “the financial system has been turned over to ... a purely profiteering group”.  Though its chairman and board must be approved by the US Senate, Wilson came to regret his signing the Act.(4)

Today the Fed is owned by about 3000 private banks, each of which by law enjoys an annual profit of 6 percent.  Thus our money system, far from being a democratic institution, was conceived in conspiracy and dedicated to the proposition that some classes are entitled to profit from it.

This system was key to the 2008-2010 multi-trillion-dollar Federal Reserve bailout of the delinquent mortgage and investment banks—ten times the amount provided by the US Treasury under the “troubled asset relief program” (TARP)—allowing the dispossession of millions of Americans.  After the loosening—during the Reagan and Clinton years—of 1930s banking restrictions, banks expanded into high-risk trading and insurance and they consolidated, while regulatory agencies were corrupted and lax.  Banks controlling most money in the US are now “too big [to be allowed] to fail”, and their officers “too big to jail” because they claimed that their bankruptcies and sale or reorganization would completely destroy the US and international financial system.  Not prosecuting corporate officers for criminal offences is a related matter.

The process was totally undemocratic, huge amounts of money having been transferred from government and quasi-government (the Fed) institutions to private corporate accounts without even notice to Congress members.  Perversely the banks were reluctant to loan out the funds so as to boost the economy, but nevertheless continued to trade in derivatives and pay their officers and traders handsomely.  The public was left to wonder, among other things, where these unimaginable amounts of bailout money were coming from—their taxes?  If so, why was the government not subsidizing its distressed citizens?

**Vested and Objective Concepts of Economy**

Republicans and many Democrats have a static rather than dynamic view of the economy.  They believe that everything should be in equilibrium with a fixed structure of low government investment, low national debt, a modest and steady amount of borrowing and private investment, and a steady growth of gross domestic product.  Never mind that to get “our” share of diminishing natural resources they insist that the government spend trillions on self-reinforcing foreign wars, and hundreds of billions on trying to correct manifold damages from pollution and migration.   Never mind that plenty of money—credit—should be available for businesses to hire and pay workers whose subsequent purchases and home mortgage payments provide more of the money necessary for vibrant business and economic growth.  These concerns and others require a conception of the economy as dynamic—not static.

Dominated by the static-thinkers, Washington appears to be obsessed with reduction of debt, now $16 trillion, and see government “spending” not as investment but as waste.  Because not all congressional Republicans and their Democrat allies can be stupid, it may be argued that their motives are political and their claims duplicitous, preserving and extending private investment profits at the expense of the public and the economy.

For a healthy economy banks—or government—must see to it that money is loaned—or printed—into the economy such that the money supply is just enough to provide for basic human needs and spur repair, research, and development, but not so much that people throw money at vendors of scarce commodities and thus raise the prices of those and increasingly other things that would bring about general price inflation.  The Fed is supposed to make these adjustments, but they rely solely on creating and loaning money at interest to commercial banks which require even more interest from borrowers, saddling the public with debt.  For businesses this means also devising ways to weaken the competition, thus blocking growth and moving toward monopoly at the same time.  Democracy has many aspects, but market monopoly is anti-democratic because it substitutes brand prestige for genuine qualitative choice, or—as in pharmaceutical pricing—makes necessities unavailable to lower-income people.

**The Trillion-Dollar Coin**

To help solve some of these problems several observers including Lord Adair Turner, chairman of UK’s bank regulators, have suggested that the US Treasury create a trillion-dollar coin for deposit in the US account at the Federal Reserve Bank.  Then, if Congress appropriates money for new projects to stimulate business and jobs, protect the environment, or lift millions of people from poverty, the Treasury can write checks to get those projects going.  No loans.  No interest.  No increase in the federal deficit.  No wringing of hands or cramped bargaining over balancing the budget or reducing the national debt.  Only, perhaps, an accusation that the President is tricking the banking establishment.

The unprecedented minting of a trillion-dollar coin may seem outrageous to many, but it is consistent with the US Constitution which grants the Congress the power to “coin money” and “regulate the value thereof”, setting no limit on the amount.  It would represent about 10 percent of the 2011 money supply—the total of our credit, cash, money market, and certificates of deposit.  So a trillion-dollar account from which the government can pay agencies to implement national programs or fund state or regional programs, is very substantial and capable of priming meaningful economic activity and generating at least temporary optimism and prosperity.(5)

Nevertheless, many in the public approve the debt-reductionist, static-economy policy because they liken the national budget to their household budgets.  If some of their household needs were offset with non-monetary resources—sharing, barter, cooperative enterprise, substitute satisfactions, new interests, etc.—they might think otherwise.  However, education about how money is created either privately as debt or through government as grants to agencies might be a more feasible immediate basis for attitude change.

Since trillions of dollars have already been created and loaned (on easy or unknown terms) to banks by the Federal Reserve gratis or under “quantitative easing” (QE)—with much sitting in member bank reserve accounts without being loaned in turn to businesses which pay suppliers and employees who then would further circulate the money—some people may think that a trillion-dollar coin would not be helpful.  They must learn that the trillion dollars would be dispensed from the government’s checking account not to banks, but directly to action agencies, even though this may be anathema to corporatists of any party.

Depositing one or several trillion-dollar coins at the Fed is problematic since that institution is saddled with conservative policy makers as well as old and recent rules focused on buffering against disasters rather than being proactive.  However, creating and using a government-owned Bank of the United States with a charter for domestic development rather than for military and imperial purposes could allow trillions of federal dollars to bypass legal debt limits and fund our entrepreneurs, scientists, environmentalists, and social agencies—public and private—with conditional grants (to, e.g., capitalize community banks) as well as loans.  Accountability rather than interest would be a paramount principle.  Thus projects would be reviewed periodically and progress specifications revised with experience, much like the Brazilian projects undertaken with participatory budgeting.  Reviews could involve a range of stakeholders, unlike private bank refinancing reviews driven by bank profit.

**A Public Bank—Dakotan or Democratized?**

Public Banking’s concerns have been with the state or local government’s avoiding interest payments on bonds, and facilitating local economic development by partnering with community banks.  The sole North American example—in business for almost a century and going strong—is the Bank of North Dakota.  BND is state-government-owned, receives all state government revenues, and reduces state taxation by partnering with local banks which originate modest-interest loans to local businesses, homeowners, and students, and depositing profits in the state’s account.  Thus borrowing and business improvement accelerates, creating new money by having written loans on a modest fractional reserve basis and assuring continued circulation.  BND has supported conventional local businesses as well as students and industries such as cattle and construction, and kept local banks profitable while during the 2007-10 financial crisis banks failed in most other states.  But BND is by no means democratic—the public has no means of setting priorities for development and environmental and social protection, if that’s what they want.

Eighteen state legislatures are considering a state-owned bank.  In 2010 Massachusetts, for example, set up a commission to study its feasibility, mandated to consider the BND.  The commission based its recommendations on a report written by the Federal Reserve Bank of Boston saying that conditions in North Dakota were different and that such a bank was not needed in Massachusetts—never mind, for example, tax reduction, transit, and deteriorating infrastructure which haven’t interested private banks.  The commission made little effort to hear from the public, and considered no alternative, more democratic model.  Now a new citizens’ effort has been initiated to advocate for a public bank, laying out its many advantages. The crux of a public banking policy is a broader way of thinking about the nature of money.  Our obsolescent metaphor has been money as a living, growing organism:  If money is properly planted and protected as an investment it should grow of its own accord, and its owner should reap fruit (interest) as well as eventually to be able to convert its body (principal) to building material or fuel.  But money is not a living organism.  It is a construct of the mind, or of the banking establishment, symbolized by credit accounts and certificates if not tokens, and sustained by trust based on perception of other people using it in investment and trade.  What knowledge and respect does the public have for money and the money system?  What trust do people have for banks, loan instruments, traders, and regulators?   What benefits and what burdens come from private and government loan policies, for how long, and for whom?  What do public and private institutions have to do with the whole system?

Of course decisions concerning investment and trade can be based on a model, to be frequently revised as in Brazilian cities’ participatory budgeting procedures in the light of popular experience.  But let it be a broad system model weighing in human and natural factors rather than a labyrinthine model like that underlying our central banking system or the supposedly humane World Bank or the puritanical International Monetary Fund.   Development need not be uniformly based on the punitive demand of return of principle-plus-interest.  It can be based partly on granting channeled by periodic review, and serendipity beyond accountability—and in case of total misuse of funds, revocation (as in claw-back, receivership, eminent domain, or referendum).  Such a broad model is envisioned by Syriza, the party of Greeks oppressed by the European Union’s central bank.  It would redefine the nation’s debt, redirect debt servicing into the economy through a development clause, and recapitalize Greek banks without its cost being added to the public debt.

**Changing the System**

Today in the US “growth and progress” is deceptive as an ideal of change since it is conceived as really a technological extension of the present.  This is being challenged, however, by a vision of qualitative, ecological change in which interest on debt may have no place—a vision of intensive development or growth, without disturbing nature or encouraging population growth.  That vision is far from integrated into economic planning although it may be shared by some computer specialists working for corporations, perforce, but interested in interdisciplinary, collaborative projects more given to grants than to the autocratic borrower-director standard of today’s lending institutions.

Overcoming the inertia of our current banking system—a system of unsustainable growth—will require more than preaching the gospel of debt reduction.  Can debts be repaid in kind as when medical interns give community service?  Can debts be serviced better with collaborative borrower circles as with micro-credit and its very low rate of default despite high rates of interest?  And so on.  We will require a system-educated public beyond the technically-educated to get beyond the current banking system.

But how ready for education is the public?  Debates about monetization and full-cost pricing are left to socialists.   Even questions of money supply and circulation evade understanding and attention, partly because of self-serving professional obfuscation relegating such matters to the business pages.  Most people can’t grasp the idea that banks create money “out of thin air”, and whether that is good or bad.  Hence, the idea of a trillion-dollar coin becomes a joke.  Pundits’ warnings of hyperinflation if the government increases the money supply (“prints money”) intimidate people whose simplistic financial education comes from bank fliers and television.  But gradually, popular education arranged, for example, by Occupy and activists like the animation film-maker Annie Leonard are educating the skeptical, and their films’ liveliness on the internet is attractive to young people.(6)

The matter hinges importantly on learning and socialization.  Present leaders must learn to respect the concerns and suggestions not mainly of leading corporate bankers, but of community actors—local bankers, city managers, depositors, entrepreneurs, providers of basic goods and services, and citizen-consumers.  This, because of the colossal failure of mega-banking in economic globalization, and because of a fruitful trend toward local or regional production and autonomy and the option of public banking.  (7)

The psychology of money transformation—overcoming dependency and re-envisioning the uses of currency and credit—involves the many aspects of innovation, practice, and group support neatly systematized by Paulo Freire:  Let education be liberating, not domesticating; engage learners with issues of relevance to them (“money is us”); pose problems, not just approved ways; encourage dialog as co-learners; alternate reflection and action; and aim to transform communities, not just individuals.  With regard to substance, we might add that young people may recognize the competition trap: monetization encourages competition and money-mindedness, blinding us to publicly recognizable personal qualities that can end participation in the “rat-race” to be in the top rank, and encourage activity that others can admire and share.

**Democracy and Banking**

The grandiose, forbidding architecture of typical bank branches—looking on the outside like marble temples or the US Supreme Court—set up the depositor or borrower for subordination to bankers on the inside, confronting the public with barred windows and barrier-desks.  This discourages customers from attempting to bargain or modify terms of loans, and the process is reinforced by legal regulations engendering the perception of an all-embracing system with no alternatives.  Signing on the bank’s terms brings to mind consequences of default—credit disgrace, confiscation of property, sheriff, courtroom, job loss, even prison.

Now imagine banks as open places—perhaps reclaimed post-offices—where loan and tax forums and mortgage conferences can be held.  Teller cages and offices, yes, but also classrooms for popular economics where insider methods and alternative systems can be explored through videos and discussion.  Ombusdmen, popularly elected arbitrators, perhaps even a citizens’ court capable of educating, commending, or penalizing bank or corporate officers.  A civic gathering place.  Could democracy be revived, with the neighborliness and initiative of 19th century Populist days?  These are trappings and processes which even Public Banking has yet to consider.

While North Dakota’s bank takes no deposits from individual citizens, other states or regions could do that, depending on political will.  States, counties, cities, or regions could create other models of public banking.  The main obstacle seems to be the fear and anger of big private bank leaders about competition—they don’t want to share profitability.  However, their wishes may no longer be respected, considering the scandalous crises they have created in recent years as well as in most of US history.  New Deal-era reforms have proved that panics are unnecessary. Banker ties with European banks for over a century have become better known and more irritating due to the inequalities generated by corporate globalization and the financialization of the US economy with its shaking out of the middle classes and undeserved taking of billions by leading corporate individuals.

As corporations have become more adept at beating the competition and becoming indispensable through public relations, political front groups, and social organizational technology, so the general public is learning more about self-organizing through democratic and anarchic methods in protesting corporate rule, nonviolent insistence, seeking participation, and conceiving alternatives.  Popular participation has proved practical and beneficial in participatory budgeting, invented in Brazil and adopted in hundreds of cities in South America and now in Europe, Africa, and even New York and Chicago.  Such locally-based, direct democracy can reasonably be adopted in banking.

The principal stumbling blocks to democratic finance seem to be political, with increasingly formidable bodies of big-business-friendly state and federal law which American legislators are reluctant to challenge, and which courts are there to reinforce rather than criticize.  But such reluctance is not universal.  In Italy a very sensible win-win solution has been enacted into law: Workers dumped in their disintegrating economy now have a choice: accept a meager unemployment dole (as in the US) or get together with ten or more others to start a small or medium-sized cooperative enterprise, government-capitalized up-front by three years’ worth of their otherwise pitiful dole—that’s 360 times the average worker’s monthly dole, maybe a third of a million dollars.  It’s break-even for the government and sustainable, high-level motivation and organization for the otherwise unemployed, with prospects of community benefit, profit, and tax payments: a step toward the disappearance of economic and social depression.  Here the government is acting as banker, but debt-free, and not taking away business from commercial banks.

Giant banking oligopolies with lax regulation and with derivatives and interest swapping schemes have proved a disaster. Psychologically, the private banks need new boundaries and options for legitimate profitable activity before they will quit combining lending and gambling, and gaming the political/legal system.  Reform will not be in new financial “products”, but in restructuring and democratizing American finance---delineating specialties with room for both publicly-oriented lending-and-granting, and smaller, decentralized profit-and-community-oriented lending institutions.

The quite legitimate trillion-dollar coin may yet break the ice of corporate invulnerability and provide needed energy for creating democratic financial institutions like public banks.    ##

**Notes:**

1.  Robert Lantham Owen, National Economy and the Banking System of the United States, 1939.

2-4.  Ellen H. Brown, The Web of Debt, 2010, p.82-3, 91, 123.

5.  John Lounsbury, "The Terrifying Danger of the Trillion Dollar Coin", Econintersect.com, 9 January 2013

6.  e.g., http://grist.org/politics/2011-11-09-the-story-of-broke-annie-leonards-new-video/

7. Gar Alperovitz, America Beyond Capitalism, 2005; Michael Shuman, Going Local, 2000.

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