A mechanism for inflation

Money, the State and Modern Mercantilism

MURRAY N. ROTHBARD

MONEY IS the nerve center of any economy above the most primitive level. An economy consists of a vast and intricate network of two-person exchanges, and money constitutes one side of every exchange. Money is the medium by which producers of goods and services (sold for money) proceed to become consumers of goods and services (bought for money). If any one person or organization manages to obtain control over the supply of money—over its quality, its quantity, or its use—he or it has thereby taken a long step toward gaining complete control of the entire economic system. Similarly, it is difficult to see how complete economic control could be achieved without domination of the supply of money.

I. *Money on the Free Market*

IN THE PURELY free market, no one person or group can have control over money. Money arises, on the free market, when one or more commodities, in particularly intense demand and possessing such other qualities as durability, portability, and divisibility, are chosen by individuals to serve as media of exchange. Once a commodity begins to be used as a medium, the process accelerates as this makes the good all the more valuable, until it finally comes to be used as a general medium for exchanges—as a money. Over the centuries of civilization, gold and silver have been the leading commodities to be

thus established as moneys. On the free market, then, money arises as another—and highly important—use for a commodity on the market; in the civilized era, these chosen commodities have been gold and silver.[1]

On the free market, a person can obtain money in only three ways: (a) by producing a good or service and exchanging it ("selling it") for the money-commodity; (b) by someone else's free gift; or (c) by producing the money-commodity itself. Route (b) will not be dominant in the economy and, at any rate, it reduces back to the other two methods, since at some point backward in time the gift process must come to an end. But a good will not be chosen on the market as money unless it is in long-lasting and great demand, and it cannot be in such demand unless it is relatively scarce. Therefore, route (c) for the acquisition of money involves the complicated production of a scarce commodity; in the case of gold and silver, it means finding new reserves of ore and extracting them from the ground. All businesses, all industries on the market tend, in the long run, to yield about the same rate of return; if not, then capital and resources will flow out of the poorer earning and into the better earning industry until rates of return are equalized. Consequently, the gold-mining business will not provide any lasting bonanza on the market; it will tend to earn about the same rate of return as other industries. There will then be no *a priori* inducement to enter the gold- or silver-mining industry as compared to any other industry. Furthermore, gold and silver are so durable that the proportion of new gold or silver mined each year will generally be negligible compared to the existing stock.

The overwhelmingly important route to obtaining money on the market, then, will be route (a), the sale of goods and services for someone else's stock of money. No one will be able to obtain money unless he either produces goods or services for exchange, or enters the gold-mining business. Apart from voluntary gifts, he will receive gold or silver in proportion to the value that other exchangers put on his services to them.

It should be evident that, in the free-market economy, no one person or group will be able to control any aspect of society's money. All money is extracted from the ground by private individuals, and there is no issue of currency by the State. The total supply of money is determined by the state of natural resources and by people freely and voluntarily entering the gold- or silver-mining business. How much money each person gets is determined solely by every individual's free and voluntary decision on how much he will buy and sell, or not buy and sell, of any given product or service. The aggregate result of these individual choices determines a person's total sales and income. A free and uncontrolled money, and a free and uncontrolled market, go necessarily hand in hand.

And yet, curiously enough, so far has the world gone from a truly free money that even the most "conservative" economists, often champions of the free market in other areas, do not contemplate a return to free-market money. Milton Friedman and the economists of the "Chicago School" advocate, indeed, a totally fiat paper money, manufactured by government and cut loose entirely from any vestigial connection with gold and silver. The United States Chamber of Commerce, in its textbook series on economics, simply concedes: "Money is what the government says it is."[2] But surely no free market can endure when control over the vital supply of money is thus granted permanently to government.

II. *Money and the State*

IN THE LAISSEZ-FAIRE revolution of the nineteenth century, money was one of the crucial

areas where this revolution scarcely made headway. Government retained not only a mintage monopoly, legal tender laws, and the power to fix arbitrary exchange rates between gold and silver, but, particularly important, it retained its Central Bank, and thereby its virtual control over the banking system. Since the liabilities of the banking system, nominally redeemable in gold or silver, increasingly became the bulk of each country's money supply, governmental protection and domination of the banking system loomed as an ever more vital problem. The British classical liberals never even thought of disturbing the hallowed status of the Bank of England; the United States struggled intermittently with central banking. At other times, money was subject to other variants of government control. Having relinquished little of its monetary control in the nineteenth century, the State has, in the twentieth, moved to take over absolute control of the monetary system, seizing its subjects' gold and silver and preventing them from using these commodities as their money. In this way, in most countries, the State has arrogated to itself a monopoly of monetary issue; the "paper" standard, which forms the nation's money and on which the government-controlled and manipulated banking system issues its liabilities, is *government*-issued paper.

There is no mystery as to why the State clung to its control of money even while temporarily relinquishing its grip on other areas of the economy. For one thing, as we have seen, control over a nation's money is a prerequisite for dictation over the rest of the economy. Another reason for the State's vital interest in money is that only through such control can it break the production-income nexus of the free market. We have seen that, on the free market, the only way to obtain money is to produce and sell goods or services to those who wish to buy; thus, the only way to acquire money from other people is to provide them, *pari passu*, with services they desire. But there is one way to break the requirement of producing desired goods and services to obtain money; and that is to gain control of the means of *creating* money. If one can create new money simply and easily, then he can enter the market to consume goods and services without first having to produce any himself. On the market, private individuals cannot do this, since this constitutes the crime of "counterfeiting." The State, however, has the unique attribute of being able to perform actions which would be considered criminal on the part of private individuals ("taxation" as against "robbery"; "war" as against "murder"; "inflation" as against "counterfeiting"). If the State controls the money supply, then it can create new money and use it to increase its own expenditures on goods and services, as well as the expenditures of its favored, subsidized groups in society. The "legalized counterfeiting" of "monetary issue" permits the State to break the production-monetary income chain to its own advantage. Necessarily, this also means to the detriment of the actual producers in society, who must yield resources to the bidding of those who come to the marketplace equipped with this newly issued money. This is why "inflation"—the increase of paper money or bank liabilities—is a hidden, and therefore particularly insidious, form of taxation. Being hidden, an inflation of money is not likely to arouse the opposition that may be stirred by overt taxation. And since monetary inflation is hidden even while its consequence in rising prices becomes generally evident, the government can join the public in denouncing rising prices, while conveniently overlooking its own total responsibility for them. Indeed, it may go a step further; it may denounce any and all groups in the population, whose selling prices naturally rise during an inflation, for wickedly *causing* the price rise.

Foreigners, speculators, businessmen (big or little), laborers—whichever scapegoats may be convenient are denounced, and then the government may go on to use these very attacks as a *point d'appui* for extending its controls and dictates over the society.

In short, the State may obtain its revenues—may break the production-income link of the market—in two ways. It may impose taxation, which is overt, evidently coercive, and likely to stir opposition if pressed too hard. Or, on the other hand, it may obtain control of the monetary system, and then create new money to spend for itself or to use for rewarding the groups it favors. Moreover, as we said above, this latter inflationary process is hidden and subtle, and thus not likely to arouse the general public; indeed the State can turn inflation to its own advantage by taking the lead in denouncing groups it happens to oppose, for causing inflation, and may then use this as an excuse to extend its own power. The State then emerges before the public, not as a predator heavily taxing the public, but as society's diligent protector against "inflation."

We may see now the irony in the doctrine that the State should "protect society against inflation" or "stabilize the price level." For inflation is the health of the State; it is the natural tendency of the State; and it is largely to enable it to inflate for its own benefit that the State is so determined to secure absolute control over the monetary mechanism.[3] Any group, in fact, that is given the exclusive power to create new money may be expected to use that power to its own advantage—and the State is surely no exception. It is curious how differently persons' motives are analyzed and judged when they are private individuals and when they are members of the State apparatus. When a man enters business or joins the labor force, few people assume that his prime motivation is the public weal rather than private profit or income, nor are they shocked that this is so. And yet, while personal gain is considered a natural motive in private enterprise, the moment a man enters the State apparatus he is assumed to be motivated purely by altruistic striving for the "public good," and any other motivation is considered "corrupt." Perhaps this is because the public realizes instinctively that, on the free market, private gain is earned by serving others, so that the private gain of one is consistent with, and indeed advances, the private gain of all. The public may also instinctively feel, on the other hand, that the State apparatus earns its gains only *at the expense* of others. In contrast to the harmony of interests on the market, there is an inherent conflict of interest implicit in State actions. Therefore, to believe that State officials confiscate and rule the property of others for their own private gain would be intolerable. To cloak the actions of the State in morally and aesthetically respectable forms, then, the public must believe that these actions are motivated by zeal for the "common good." Let the public see the fallacy of these assumptions, and view the State as a group of people battening off the production of others, and they are much more likely to see the State as a natural inflator than as an ideal instrument for "stabilizing the price level."

III. *Central Banking*

No institution is more necessary for State control and manipulation of a modern economy than the Central Bank, and no institution is more venerated. Most conservative economists believe themselves to be daring when they advocate independence of the Central Bank from the Treasury—a vain pretense that an organ of the State like the Central Bank can somehow be transformed into a wise and beneficent institution,

"above politics." The wisdom of Federal Reserve manipulation of the American economy, for example, goes virtually unchallenged. The Chamber of Commerce, for one, has no doubt:

> It . . . is . . . an important function of the central banking authorities to determine the proper size of the money supply for the effective functioning of the economy and to try to pursue policies which will keep the money supply from either being over—or under—expanded. . . .
>
> During recession and depression periods, the Federal Reserve should lower reserve requirements, buy U. S. Government securities and lower rediscount rates. This will provide commercial banks with excess reserves and tend to increase the supply of money. . . . During periods of prosperity and in the latter stages of recovery, the Federal Reserve should pursue the opposite of its depression policies: namely, it should raise reserve requirements, sell U. S. Government bonds, and raise rediscount rates. This puts a definite curb on the amount of credit which can be created and can act as a lever to prevent a boom from getting out of hand and can curb rising prices. . . .
>
> The power to prevent inflation (and to some extent deflation) unquestionably is now at hand in the U. S. Treasury and the Federal Reserve System. Enlightened public support on the side of reasonable price stability is indispensable to strengthen the hand of these monetary authorities.[4]

It is a generally accepted myth that the Federal Reserve System—as in the case of other central banks—was established to stabilize the economy and check inflation. Actually, it was designed to *promote* inflation under the aegis of the central government. Individual banks by themselves, not artificially bolstered by central banks, have a tendency to collapse before they can inflate very far: either from each expanding bank's losing cash (gold or paper) to other banks, or from runs on the banks. The Central Bank can make sure that all banks expand together, can furnish needed reserves to banks throughout the country, and lend to banks in trouble, and can thereby bring about a much greater, and centrally coordinated, expansion of the money supply.[5]

In refreshing contrast to the plethora of conservative economists who concede the need for the absolute control of the Federal Reserve over our money is a perceptive and unequivocating article of Oscar B. Johannsen. Beginning with a critique of a report by the Economic Policy Commission of the American Banker's Association, Mr. Johannsen continues:

> . . . the Commission apparently accepts without question the fundamental principle that money, banking and credit revolve around the State and that the State must, therefore, control monetary affairs through political action. . . . It is no more a function of the State to regulate money and banking than it is a function of the State to regulate growing and marketing of onions . . . In keeping with the trend to intervene in the social sciences, the State has, to the limit that it could, gathered money, banking and credit together into one centralized banking system controlled by itself. But a governmentally centralized banking system is a socialized banking system, as the essence of socialism is the control and direction by the government of that which should be private enterprise. . . .
>
> It should be apparent now that with the inception of the Federal Reserve System, America adopted a system dealing with a phase of private enterprise totally different from that under which most other businesses are conducted. Manufacturing, mining, trade are carried on by private individuals all seeking to make a profit with the customer as King. No arbitrary

commission, or group of men, or bureaucrats determines who shall make cars, what cars shall be made, what prices shall be asked. . . . This is all done by private individuals, and they are guided by King Customer, who directs them by buying or not buying. Unfortunately, in banking, which has as its principal raw material the most important of all commodities—money—we have adopted socialism. This is an alarming fact upon which private enterprise cannot look with equanimity, as a socialized banking system is the precursor of socialism in all business.[6]

IV. *Inflationism and Mercantilism in America: Five Case Studies in Historical Revision*

IF INFLATION is the health of the State, how and in what way has government generated inflation in the history of the United States? The following 'case studies' illustrate this process, as well as the important connection between inflation and centralized State control of the economy. They illustrate also the connection of inflation with 'mercantilism'—the use of economic regulation and intervention by the State to create special privileges for a favored group of merchants or businessmen. Until very recently, conservative as well as left-wing historians have accepted the neo-Marxian myth that struggles over inflation and hard money in America have all been 'class struggles' of the farmers and workers ('debtor classes') in favor of inflation, as against merchant-creditors on behalf of hard money. The case studies indicate how recent historical scholarship has refuted this widely accepted thesis.

a. *The Massachusetts Land Bank of 1740*

One inflationist paper-money scheme, the Massachusetts Land Bank of 1740, has generally been regarded by historians as a plan instituted by a mass of small farmer-debtors, over the opposition of the merchant-creditors of Boston. This stereotype was first fashioned by the contemporary opponents of the plan, who dismissed the proponents of the bank as "plebeians"; it was systematized by such conservative economic historians as Andrew M. Davis, writing at a time when agrarian Populist inflationism was a threat to sound finance, and then taken over by neo-Marxist historians in the 1930's, to become established in the history textbooks. Actually, as Dr. Billias has shown in an important paper, the major proponents of the plan were as wealthy and as connected with business as its opponents; merchants were debtors too, and the chief advocates of a land bank "were all businessmen, politicians, or professional men residing in Boston"; the leading proponent of the plan was John Colman, a prominent Boston merchant and the founder of the Massachusetts Land Bank. Colman, indeed, tried to stir up support among the farmers by promising them that the inflation arising from the establishment of the bank would raise the prices of farm products. Businessmen were particularly eager for inflation after 1720, because after that date the Massachusetts government adopted a policy of granting unsettled frontier land to speculators, who then sold these lands to the actual settlers at far higher prices. Expanded bank credit was wanted to finance business speculation in government land grants as well as to raise land prices. Joined with inflation was another mercantilist feature: a subsidy to home manufacturing, through permitting repayment of bank debts in certain specified manufactured commodities.[7]

b. *Nicholas Biddle, Planner and Central Banker*

The famous Bank War between Andrew Jackson and the Second Bank of the United

States has also suffered grievous misinterpretation by historians. Jackson has been considered a wild-eyed agrarian inflationist, out to wreck conservative "sound finance," as represented by Nicholas Biddle, head of the Bank. Here, again, this interpretation began with Jackson's contemporary enemies, was forged amidst conservative battles with agrarian Populists in the late nineteenth century, and then was adopted—with heroes and villains, of course, reversed—by the neo-Marxist historians of the 1920's and 1930's. Actually, as recent historians have pointed out, the true ancestor of the New Deal was not Andrew Jackson but his opponents, including Nicholas Biddle. Biddle, son of a leading merchant of Philadelphia, enthusiastically embraced the mercantilist "American System" of the Whigs. Biddle's mercantilist views emerge clearly from the eulogistic biography by Professor Govan, who writes:

> Biddle's study of political economy led him to reject the . . . doctrines of the classical liberals. . . . He had seen too clearly during the course of the War of 1812 and its aftermath how business activity responded to the expansion and contraction of the money supply to believe that economic activity was governed by natural laws with which men interfered at their peril. He advocated a protective tariff for national reasons, primarily to free the country from economic domination by England. . . . Wages and profits of workers and factory owners could be maintained at higher levels than in the world outside, and farmers and merchants would receive recompense in the large and constantly increasing home market. . . Internal improvements and a national bank were essential elements in such a program. The construction of roads and canals and the improvement of rivers and harbors would facilitate the movement of goods and people, and the Bank of the United States, by providing a uniform currency and regulating the rates of domestic exchange, would similarly facilitate the pecuniary aspects of these same transactions.
>
> No single mind created this concept of a predominantly private economy which was directed, supported, and controlled in the public interest by responsible national authorities. Its origin was in the state papers of Alexander Hamilton . . .[8]

c. *Stephen Colwell, Conservative Socialist*

The neglected mercantilistic affinities of conservatism and socialism have never been better illustrated than in the case of a leading protectionist ideologue of the first half of the nineteenth century, Stephen Colwell.[9] Colwell was an important Pennsylvania ironmaster and was prominent in railroad investments. Iron manufacture, of course, was always a leading beneficiary of the protective tariff, and of bank credit expansion as well.[10] In a series of articles published during the 1840's in the Presbyterian *Biblical Repertory and Princeton Review,* Colwell "attempted to weld together in the name of Christianity the pro-slavery, the high-tariff, pro-bank, and anti-democratic forces of the nation."[11] Colwell fulminated against the "moneyed power" (commerce), which "must be regulated by a judicious tariff or it will consult its own greedy interest, regardless of the sufferings it imposes on labor in the process"; the laborer, "crushed, starved, and cast aside by . . . bitter competition," is a worse "slave" than the slave in the South.[12] In fact, the slave benefits from slavery, and would benefit still more from high tariffs. A wise and proper protective tariff would also enable men to fix prices not cheaply, but with reference to the quantity of labor expended on the product. *Laissez-faire* was denounced by Colwell as abstract, and as emphasizing selfishness and

materialism rather than religion, morals, history, and the well-being of the whole man. The *laissez-faire* theorists, in fact, wickedly placed the "claims of free trade" higher than the "claims of labor," which include the protection and discipline of the slave system.[13] Colwell also wrote: "The government alone can survey the whole field of national industry and ascertain the condition of all the laborers ... how many are suffering from the influx of foreign products."

In the 1850's Colwell concentrated on denunciation of hard money, a call for a central bank to regulate the currency, and for inconvertible paper money. In fact, under Colwell's scheme, banks would not have to redeem their notes, being obligated only to receive their *own* notes in repayments of debt. Colwell denied that his contemplated inflation would increase prices greatly: the quantity theory of money was the product of "theorists" and was disproved by statistics. And anyway, high prices, even if they do follow, are beneficial, especially if joined with a high tariff to ensure that foreign competition will not disturb the idyll of high prices and high wages. Colwell denounced the banking system, with notes payable in specie, as "falsely predicated upon the assumption that whenever our importers, in consequence of having overtraded, must meet a heavily adverse balance, the business community as a whole should be denied its usual bank accommodation."[14]

d. *Inflation and Protectionism in the Reconstruction Period*

Another myth that has dominated the ranks of historians until very recently is the neo-Marxist Beard-Beale concept of the Reconstruction period as the exploitation of the defeated South by the "rising capitalist class" of the North. The "exploitation" was supposed to have been imposed largely through sound money and the protective tariff. Here again, historians were guilty of reading back ideological and political conditions that obtained only after 1890. In fact, as a few historians have recently demonstrated, the Northern capitalists were split in their opinion of the Reconstruction program, and the Radical Republicans themselves were split on the issues of sound money and the tariff. Of the two famous leaders of the Radicals, Senator Charles Sumner favored hard money and free trade, while Representative Thaddeus Stevens, Pennsylvania ironmaster, favored protection and the greenbacks. Once again, the Pennsylvania iron and steel industry was in the forefront of the battle for protection *and* for greenback inflationism. The Pennsylvanians realized that, in a period of inconvertible greenback money, inflation—and the consequent depreciation of greenbacks compared to gold and foreign exchange—was the equivalent of a protective tariff, in its artificial cheapening of American exports and making dear of American imports. Representative William D. ("Pig Iron") Kelley of Pennsylvania was another leading devotee of greenback inflation and a protective tariff.

The Pennsylvania iron and steel interests feared the lower-cost competition of Great Britain. They were joined in backing protection and greenbacks by the marginal Pennsylvania coal industry, which feared the import of low-cost Nova Scotia coal, and by stock speculators such as Henry Clews, who desired inflationary credit for the financing of stock speculation and the raising of stock prices. Nor were the wealthy mercantilist partisans above the use of anti-capitalist rhetoric. Stephen Colwell was again active in the cause. And Representative Daniel J. Morrell, a leading iron manufacturer from Pennsylvania, attacked the hard-money forces as "enemies of the workingman" and as "money men, who wish to give their money more power over labor and its products."[15] Joseph Wharton, of the

Bethlehem Iron Company, accused the hard-money Treasury policy of resuming specie payment as being engineered "by our English enemies."[16] The cause of protection and inflation was also persistently backed by the American Iron and Steel Association, the *Union Meeting of American* Iron Masters, the American Industrial League (composed largely of Pennsylvania iron-masters) and its organ *Industrial Bulletin*, as well as the magazines *The American Manufacturer* (Pittsburgh) and *Iron Age*.

One of the leading advocates of cheap money during this period was the prominent banker Jay Cooke. Cooke, a recipient of government land grants in his railroad ventures, benefited from inflation and credit expansion that drove up the price of land. Incidentally, Cooke had been a driving force behind the creation of the National Banking System during the Civil War, an innovation which brought federal control over the banking system for the first time since Jackson's abolition of the Second Bank of the United States. Cooke was hired by the North to be the leading underwriter of government bonds, and he thereupon worked for the establishment of a national banking system whose reserves would rest on government bonds, thus forcing the banks to invest heavily in (Cooke's) bonds.[17]

e. *Paul Warburg, The Acceptance Market and the Federal Reserve System*

From its inception the Federal Reserve System, curiously enough, set out to create a market for acceptance paper, a form of credit that scarcely existed in this country (in contrast to Europe). It was uneconomical in the United States, where credit channels preferred another form entirely: single name promissory notes. Yet the "Fed" granted an enormous subsidy to the acceptance market by standing ready to buy any acceptances offered by the market—and at a specially favorable price, cheaper than the Federal Reserve's ordinary rediscounts. This policy of unconditional support and subsidy of the acceptance market proved disastrous in the boom of the late 1920's, several times preventing the Federal Reserve from halting its expansion of credit. During the late 1920's the Federal Reserve, purchasing acceptances in this way directly from private acceptance banks, came to hold almost half of the bankers' acceptances outstanding in the country.[18] Furthermore, it confined its generous subsidy policy to a few large acceptance houses. It refused to buy acceptances directly from business, insisting on purchasing them from intermediary acceptance houses, and from only those with a capital of over $1 million. It also granted a few large dealers "repurchase agreements" —the option to buy back the acceptances at the current price.

What was the reason for this policy, which proved highly inflationary, failed in the ultimate attempt to create a permanent and widespread acceptance market, and constituted a flagrant form of subsidy and special privilege to the major acceptance banks? Perhaps the reason centers around the leading role played in the creation of the Federal Reserve System by Paul M. Warburg, one of the system's founders. Warburg came from Germany, where central banking was well established, to become a partner in the investment banking house of Kuhn, Loeb, and Company, and promptly embarked on a campaign on behalf of central banking in the United States.

Warburg was named first chairman of the Federal Reserve Board. After the war and during the 1920's he continued to be chairman of the influential Federal Advisory Council, a statutory group of bankers advising the Federal Reserve System. Interestingly enough, Warburg also became one of the nation's leading acceptance bankers, thus benefiting greatly from the system he helped

found and whose course he helped set. He was Chairman of the Board of the International Acceptance Bank of New York, the world's largest acceptance bank, was a director of the important Westinghouse Acceptance Bank and of several other acceptance houses, and was chief founder and chairman of the Executive Committee of the American Acceptance Council, a trade association organized in 1919. To write of Warburg's influence is not far-fetched speculation, for he himself boasted of his success in persuading the Federal Reserve to loosen eligibility rules for purchase of acceptances, and to establish its policy of buying all acceptances offered at a subsidized rate.[19] Furthermore, Warburg had considerable influence on Benjamin Strong, head of the Federal Reserve Bank of New York, which in these years virtually set the policy of the Federal Reserve.[20]

In these case studies we have seen that inflationism and State control of the monetary system have, in many critical periods of American history, been proposed and established, not by "workers and farmers" nor even by disaffected intellectuals, but by groups of merchants, manufacturers, and other businessmen eager to acquire special privilege, to use the State for their own advantage—in short, by men who were essentially modern mercantilists. This mercantilist drive has played a much greater role in the general movement toward statism and central planning than is generally recognized.

[1]Professor Mises has demonstrated that money can *only* originate in this way — as a commodity on the free market — and that it cannot originate by government fiat. See Ludwig von Mises, *The Theory of Money and Credit,* 2nd ed. (New Haven: Yale University Press, 1953), pp. 97-123. For a further discussion, see Murray N. Rothbard, *Man, Economy, and State* (Princeton: D. Van Nostrand Co., Inc., 1962), I, 231-37. See also Rothbard, "The Case for a 100 Per Cent Gold Dollar," in Leland B. Yeager, ed., *In Search of a Monetary Constitution* (Cambridge: Harvard University Press, 1962).

[2]Economic Research Department, Chamber of Commerce of the United States, *The Mystery of Money* (Washington: Chamber of Commerce, 1953), p. 1.

[3]As Wilhelm Röpke says, "Inflation is as old as the power of government over money." See his *A Humane Economy* (Chicago: Regnery, 1960), p. 196. All manner of groups, at any given time or place, may become favorites or allies of the State: business, farm, labor, religious groups, etc. The point is that (1) *any* group may try to use the State apparatus as a way of obtaining wealth or power for itself; and (2) the full-time rulers of the State will try to secure subsidized allies among the public.

[4]*The Mystery of Money*, p. 17; Economic Research Department, Chamber of Commerce of the United States, *Control of the Money Supply* (Washington: Chamber of Commerce, 1953), pp. 15, 21. The enthusiasm for Federal Reserve control by leading members of the gold standard group, the Economists' National Committee on Monetary Policy, is a case in point. See also the remarks of Professors Niehaus, Wiegand, and Spahr in James Washington Bell and Walter Earl Spahr, eds., *A Proper Monetary and Banking System for the United States* (New York: Ronald Press, 1960), pp. 51, 106, 165.

[5]For an excellent discussion of the inflationary nature of the Federal Reserve System, as well as its further inflationary policies and their disastrous consequences, see C. A. Phillips, T. F. McManus, and R. W. Nelson, *Banking and the Business Cycle* (New York: Macmillan, 1937), pp. 21 ff.; also O. K. Burrell, "The Coming Crisis in External Convertibility in U. S. Gold," *The Commercial and Financial Chronicle* (April

23, 1959), p. 5.

[6]Oscar B. Johannsen, "Advocates Unrestricted Private Control Over Money and Banking," *The Commercial and Financial Chronicle* (June 12, 1958), p. 2622.

[7]George Athan Billias, *The Massachusetts Land Bankers of 1740,* University of Maine Bulletin, April, 1959.

[8]Thomas Payne Govan, *Nicholas Biddle: Nationalist and Public Banker,* 1786-1844 (Chicago: University of Chicago Press, 1959), pp. 70-71; cf. pp. 50, 65.

[9]For an illuminating discussion of Colwell, see Joseph Dorfman, *The Economic Mind in American Civilization* (New York: Viking Press, 1946) II, 809-26.

[10]The first prominent political leader of the organized protectionist movement in America, Representative Henry Baldwin, was a prominent Pittsburgh iron manufacturer. Baldwin, indeed, was dubbed the "Father of the American System." See Murray N. Rothbard, *The Panic of 1819: Reactions and Policies* (New York: Columbia University Press, 1962), pp. 164 ff.

[11]Dorfman, *op. cit.,* p. 811.

[12]*Ibid.,* pp. 811-12.

[13]Cf. Stephen Colwell, *The Claims of Labor and Their Precedence to the Claims of Free Trade* (1861).

[14]Harry E. Miller, *Banking Theories in the United States Before 1860* (Cambridge: Harvard Univ. Press, 1927) p. 138; cf. pp. 135-38.

[15]Robert P. Sharkey, *Money Class, and Party* (Baltimore: Johns Hopkins Press, 1959), p. 159 n.

[16]Irwin Unger, "Business Men and Specie Resumption," *Political Science Quarterly* (March, 1959), p. 53.

[17]Sharkey, *op. cit.,* pp. 245 ff. For other works of recent historical revision on this topic, see, in addition to Unger, *op. cit.,* pp. 46-70, Stanley Coben, "Northeastern Business and Radical Reconstruction: a Re-examination," *Mississippi Valley Historical Review* (June, 1959), pp. 67-90; Irwin Unger, "Review of Robert P. Sharkey, *Money, Class and Party,*" *Political Science Quarterly* (June, 1960); and Julius Grodinsky. "Review of Robert P. Sharkey, *Money, Class and Party,*" *Mississippi Valley Historical Review* (June, 1960).

[18]See Charles O. Hardy, *Credit Policies of the Federal Reserve System* (Washington: Brookings Institution, 1932), pp. 243-63. Hardy was certainly correct in concluding (p. 263) that "Nothing has been gained by forcing the acceptance form of credit into uses in which it cannot compete on its own merits."

[19]In his presidential address before the American Acceptance Council, January 19, 1923. See Paul M. Warburg, *The Federal Reserve System* (New York: Macmillan, 1930), II, 822.

[20]Strong assumed his post only at the insistence of Warburg and of Henry Davison of J. P. Morgan and Co., his former employer. See Lester V. Chandler, *Benjamin Strong, Central Banker* (Washington: Brookings Institution, 1958), p. 39. Chandler, a eulogizer of Strong, finds that a "major interest of Strong and many of his colleagues, *especially Paul Warburg* [italics mine], during the 1914-17 period was in promoting the creation and use of dollar acceptances — especially bankers' acceptances . . ." (p. 86); See also pp. 91 ff. For a critical treatment see Lawrence E. Clark, *Central Banking Under* the *Federal Reserve System* (New York: Macmillan, 1935), pp. 242-48, 376-78.