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DEMOCRATIZING MONEY: THE HISTORICAL ROLE OF THE U.S. FEDERAL GOVERNMENT IN CURRENCY CREATION

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ABSTRACT

For two hundred and sixty years the US Federal Government has claimed that the most democratic money is a scarce form of money. This claim is built off the notion that an abundant supply of money would threaten class relations (the rights of private property) and ultimately the free flow of commerce (capitalist exchange). Since the writing of the Federal Constitution the government's focus has always been on creating reliable and abundant supplies of credit. The idea of scarce money and abundant credit has been challenged twice: In the 1860's by the Greenback Party who claimed the most democratic money is money created by government. The second challenge in the 1980s by the Community Currency movement uniquely focuses not on banks or government instead claiming that democratic money is money created by local communities and/or individuals.

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INTRODUCTION

This paper examines the history of the political idea of 'democratic money', within the historically specific U.S. capitalist democracy (Wood 1995: 213)[1]. It explores the political conversation that occurred during several phases in American history that were focused on resolving a central tension in America's political economy – an expanding economy dependent on adequate and reliable supplies of liquidity and the dominance of a scarce concept of money. This paper is an attempt to highlight the way in which money creation, and claims to be democratizing its creation, are dependent upon the historically and geographically specific context in which such claims are made. The relevancy of this research is to challenge contemporary claims to be democratizing money to fully articulate their concept of democracy, while recognizing that the very idea of what "is" democracy has shifted over time. The paper makes no claim to know what is democratic money, nor what is the most democratic form of money, but rather to show that the claim to be democratic is dependent on the specific conceptualization of democracy employed by those that claim or advocate a particular type of money creation.

First, it is necessary to define specifically what is meant by money. The particular view taken is that money, as it is currently understood, developed between the sixteenth and eighteenth centuries (Ingham 1999: 84). What this system of money creation relies on is a set of social and political institutional arrangements to manage the quantity and value of this money, "modern credit-money is itself, first, a social relation and second; that as such its elasticity of production is entirely a social construct" (Ingham 1999: 80). Therefore money's value is not natural or intrinsic but the product of the social forces that manage its production, forces that are defined by the historical context in which they operate (Ingham 1999: 82).

Second, to explore the political idea of democratic money it is necessary to clarify the specific character of democracy within which today's capitalist credit-money came to dominate. This process is most easily examined within the context of the United States of America. The type of democracy that emerged from the constitutional debates of 1787 was one that explicitly supported private property and accepted class inequality as natural. And, any effort by government to level these inequalities or threaten the existence of private property was viewed as a threat to liberty. During the period leading up to the writing of the U.S. Federal Constitution there were a number of financial policies enacted by colonial state legislatures aimed at promoting the 'leveling spirit'[2] that advocates of original democracy favored [3].

The Federalists framed these policies as a threat to liberty, to the stability of class relations and most importantly, to the free flow of commerce (Carey 2001: 231 [Federalist No. 44]). Alexander Hamilton believed that the creation of paper money by the colonial states had created, "mutual distrust in the breasts of all classes of citizens" and that, "precautions against the repetition of those practices on the part of the state governments, which have undermined the foundations of property and credit," was a necessary element in any Federal Constitution (Carey 2001: 453 [Federalist No. 85]). The Federalists clearly sided with a system of currency creation that was the most compatible with existing class inequality - a natural and necessary part of the commercial economy (Carey 2001: 41-44 [Federalist No. 10]). Hamilton believed that the, "most productive system of finance will always be the least burdensome" to the manufacturing and banking classes (Carey 2001: 453 [Federalist No. 85]). Therefore, whatever system of money creation existed, it needed to be, first and foremost, the least burdensome to these classes of society. The belief was that a gold monetary base would be the most compatible with the Federalist concept of a capitalist democracy.

FAILED ATTEMPTS AT CREATING STABLE CREDIT SUPPLIES

One of the most important consequences of the Federal Constitution was a move towards a new monetary regime, which ended the ability of individual states to print money or to declare a legal tender. This shift in money creation authority was the beginning of a historical process in which the creation of money was increasingly centralized under the authority of the Federal Government; this helped guarantee that a government friendly to the needs of the capitalist economy enacted money creation policies. The result was a financial system that reinforced the existence of private property and the free flow of commercial exchange, while mindful of the need to limit any disrupting influence this may have on existing class relations. The success of this system of money creation was critical to the continued existence of America's capitalist democracy.

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1 E.M. Wood uses the phrase and the concept of a "capitalist democracy" in her book, "Democracy Against Capitalism" (1995: 213). Her central argument is that the concept of democracy that we assume was a historically specific creation of the U.S.A. during the writing of the Federal Constitution. The American concept of democracy separated the political and economic spheres of life. This was achieved through the creation of a new concept of democracy that could accommodate capitalism by removing questions of property and socio-economic equality from the political sphere. "In that sense, political equality in capitalist democracy not only coexists with socio-economic inequality but leaves it fundamentally intact" (Wood 1995: 213).

2 The use of the term "leveling spirit" was used to identify efforts at reducing class inequality (Ferling 2003: 283)

3 When I refer to original democracy I am drawing on one of the central ideas of Athenian democracy which is described by E. M. Wood as having no separation between political and economic freedom meaning that political equality "substantially modified, socio-economic inequality" (1995: 212). In essence this original concept of democracy saw inequality amongst citizens as undemocratic, this was extended to include ideas of elections and representation, which were, prior to this era, associated with oligarchy (Wood 1995).

It was immediately evident to the Federal Government and most citizens of the newly created U.S.A. that the expanding economy would need increasing supplies of currency – be it in the form of money or credit. While the economy, as it grows, requires increasing supplies of currency, the chosen base at the time was gold, which is naturally finite and therefore cannot reliably expand to meet the demands of the growing economy. It is this tension between continuous growth and scarce supply, which keeps debates over the creation of money politically relevant into the twenty-first century. Geoffery Ingham, an academic who has written extensively on the history of money, has highlighted how, "The scarcity of money is always the result of very carefully constructed social and political arrangements" (Ingham 2004: 8).

Advocates of scarce money – led by those who saw gold as money because it is a real and natural form of value and has historically played the role of money – believed that its value was not the result of government's actions or socially constructed (Babb and Carruthers 1996; Financial Pamphlets Vol. 1-5). The advocates of gold critically believed that money is "not socially constructed and that it rather belonged to an autonomous and natural sphere – the market – in which it was perilous for a polity to intervene" (Babb and Carruthers 1996: 1580). In other words, gold money existed regardless of any action taken by government and in fact any effort by the government to create money would be considered perilous to its own survival and the broader political economy.

With state governments having lost their ability to create their own money they turned to the next best solution, they issued state bank charters and endowed those banks with the right to issue their own forms of credit[4]. This was driven by the individual states' realization that if they could not issue money (as they had been doing prior to 1787 in the form of paper), while the expanding economy was crying out for additional liquidity (in the form of a reliable medium of exchange), the only available solution was to increase the supply of credit.

The credit issued by the state banks was always issued on the assumption that there were equivalent reserves of gold held by the issuing bank. This meant that banks had to compete over the scarce supply of gold money in order to be able to provide reliable forms of credit. Over the following sixty years the number of state banks with credit issuing charters grew steadily. From just three in 1790, "their numbers rose to 28 in 1800, 102 in 1810, 327 by 1820 and 584 by 1835," (Sylla 1998: 85) and by 1840 there were over eight hundred banks issuing their own forms of banknotes (Rousseau 2004: 23). During the first half of the eighteenth century banks were, "in the minds of the average citizens anywhere" charged with overcoming, "the scarcity of money" by making available the credit needed to enable the free flow of commercial exchange (Unger 1964: 40). The distinction being that these banks were creating credit and not creating "destabilizing" paper money. Despite the proliferation of these credit-issuing state banks and because of the scarcity of gold money, they often failed to issue reliable supplies of credit. The economy repeatedly experienced bank runs and crashes throughout the eighteenth and nineteenth centuries, in great part due to the over issuance of credit, hoarding of gold and inability to increase the supply of the monetary base.

These repeated crises set off a series of debates that were driven almost immediately by differing class interests. The debates centered on the belief that bankers represented and worked to the benefit of the merchant and banking classes, over the interests of the agrarian and laboring classes[5]. Hamilton explicitly stated that the interests of the laboring classes, "can be more effectually promoted by the merchant than by themselves" (Carey, 2001: 207 [Federalist No. 35]). This sense, that the banks were focused on serving the needs of the merchants over the needs of the farmer, was reinforced by the fact that the majority of banks were based in New England and the Middle Atlantic States dominated by wealthy property owning merchants and bankers (Sylla 1998: 85). This concentration of money in the northeast was linked (at least in political rhetoric) with the economic hardships experienced in the predominantly agricultural south.

The continuous instability of this system of state bank issued credit, and the negative ramifications this had for the overall political economy, helped drive the repeated efforts of the Federal Government to create a system of national banking. The efforts of the Federal Government centered on the idea that the creation of a national bank, which issued its own credit, would provide the greatest amount of stability to the political economy. The Federal Government created two national banks both of which would cease to exist by 1841 as a result of political, and not financial reasons (Davies 2002: 475-478). The idea behind the creation of these banks was that their credit would be accepted at face value by all banks (unlike state bank issued credit), because they would trust the ability (the liquidity) of the national bank to exchange the credit for gold money. This would create stability and reduce the negative impact of scarce supplies of money on the political economy. Importantly, there was no attempt by government (federal or state) to create more/new money (unlike the paper money

4 My use of the term credit applies specifically to banknotes issued by individual banks. These banknotes, prior to the arrival of computers, were issued as pieces of paper, and were supposed to represent real and existing supplies of gold money. The idea being that if you returned to the bank with your banknote you would be given an amount of gold money in return.

5 For an in-depth look at these class conflicts and the shifting interests see Sharkey, (1959); Unger, (1964); Sylla (1998).

created by the colonial states of the 1770's). All efforts were focused on creating credit, while gold would continue to form the scarce monetary base and act as the only "true" and "natural" form of money.

THE FEDERAL GOVERNMENT CREATES PAPER MONEY

In light of the Federal Government's original focus on creating credit, and not duplicating the efforts of the colonial state legislatures, the decision in 1862, during the American Civil War, to issue new paper money into circulation, was a surprise to many and led to a series of challenging and illuminating debates[6]. Due to the failed attempts at creating a national bank, the Federal Government was in desperate need of a reliable currency supply to fund both its military operations and enable the free flow of commercial exchange.

During the Civil War the Federal Government could not rely on state banks to create adequate supplies of credit. At the outset of the war, "A supply of gold and silver coin could in no way be depended on. It has been noted that hoarding had begun even before the suspension of specie payments" (Sharkey 1959: 34). This hoarding placed massive constraints on the flow of money, reducing the ability of many banks to issue credit. In those few cases when banks did issue credit, it was often assumed that they were over-leveraged and their creditworthiness was questioned. All of this resulted in a real shortage of available currency, and without a national bank system in place there was very little the government could do to increase the supply. In the end, the decision taken by the Federal Government was to protect the continued operation of the commercial economy, "it seems that the "necessity" of the situation was not in protecting the credit of the government but in supplying a medium of payment, in other words a currency" (Sharkey 1959: 33).

The first Legal Tender Act went into effect on February 25, 1862 giving the right to the United States Treasury to create paper money (United States Congress 1862: 345). Two more Acts in 1863, enabled the issuance of four hundred and fifty million dollars worth of paper money (Davies 2002: 487). This paper money was officially issued at a one-to-one relationship to gold. This meant that the paper money had the same purchasing power as gold. The important point to note is that when this paper money was originally issued it was not redeemable in gold; it was not a "representation" of gold, but was presented as if it was the same as gold. The fact that this paper, created and issued by the Federal Government, could not be redeemed for gold is what made it money, and not credit, in the eyes of many.

The decision to print paper money opened up a debate, for the second time in America's history, over the source of money's value and the role of government in the creation of this value. These debates, "established that the way in which that institution [of money] worked was itself the result of human intervention" (Laidler 1991: 188). During what was a relatively brief moment in history, the government's role in the creation of money's value, not just in the supply of credit, was established and confirmed. Those that supported the right of the Federal Government to issue this paper money would marshal arguments that placed the source of money's value, and therefore the creation of money, in the hands of government. These arguments challenged the very foundation of the then accepted theory of money and, in the eyes of many, threatened existing class relations and therefore the entire political economy.

Despite the appearance that the Federal Government was going back on its historical commitment to scarce money, it was doing nothing of the sort. It had included a clause in the Acts that committed the Federal Government to paying interest and Treasury bondholders in gold and not in paper money. Despite this stated commitment to gold[7], the Legal Tender Acts met with the immediate protest from the banking and merchant classes[8]. Supporters of gold money were emphatic in their arguments against what they saw as an attempt to place the source of monetary value in government. Bullionists, who were predominantly from the merchant and banking classes, had the added bonus of being the classes with the most direct political power and influence. They believed, as had been assumed by the Federalists, that they understood best how to protect the continued free flow of commercial exchange. General Garfield, a Civil War hero and future president of the U.S.A. believed that, "Money is a reality, a weight, of a certain metal, of a certain fineness. But a paper dollar is simply a deed, the legal evidence of the title that I hold to a dollar" (Garfield qtd. in Babb and Carruthers 1996: 1568). Blair (1876) summed up the dominant understanding of the source of monetary value in a speech he made to congress on May 18, 1876. He argued that the monetary value of gold is, "independent of and more necessary than any government" because it, "possesses value as a commodity" while there are those on the side of paper who are claiming that, "real

6 This section draws heavily on a five-volume set of original financial pamphlets that were published and distributed between 1820 and the late 1890's (see Pamphlets of Finance, Vol. 1 – 5).

7 The Legal Tender Acts included the following clause: "payment of all taxes, internal duties, excises, debts, and demands of every kind due to the United States, except duties on imports, and of all claims and demands against the United States of every kind whatsoever, except for interest upon bonds and notes, which shall be paid in coin, and shall, also be lawful money and legal tender in payment of debts, public and private, within the United States." (United States. Cong., 1862: 345) (Italics added)

8 This led to a series of legal cases that went all the way to the U.S. Supreme Court; Hepburn v. Griswold (1870), overturned the Federal Government's right to issue legal tender. In two cases, Knox v. Lee and Parker v. Davis (1871), Julliard v. Greenman (1884), the constitutionality of the Legal Tender Act's was confirmed.

money is not intrinsically property, but a mere token or sign, endowed with power to cancel debts" (Blair, 1876). Highlighted in this framing is that government is to have no role in the money creation process, and that the best solution resides with banks and the continued, naturalized role of gold and scarce money more generally.

CREATING ABUNDANT SUPPLIES OF MONEY

The passage of the Specie Resumption Act on January 14, 1875, led advocates of paper money to form a political party that would go on to make some of the most nuanced arguments in support of government issued money. In 1875, these individuals would form the Greenback Party and by 1878 they secured, "over a million voters and returned fourteen members to Congress" (Davies 2002: 496). They argued that removing the supply of paper money from circulation would reduce the ability of businesses to hire labor, further exacerbating the level of unemployment and the resulting social instability and threaten the entire capitalist democracy's stability.

In the process of making their arguments the Greenbacks challenged several of the fundamental assumptions made by advocates of gold money and they began to articulate a theory of money creation that placed government at the center. Representative William Kelley, an advocate for paper money and a member of the Greenback Party, argued that the addition of the paper money was a positive development, having saved the economy of the USA:

> "It may have been unwise to use that 'great enemy of the nation, the greenback,' and thus increase the volume of money and enhance prices; but let it remind gentlemen, who say that the greenback is an enemy to the country, that they decry their country's savior" (1877).

Kelley is arguing that this increase in the money supply did not disrupt or upset the political economy; in fact it enabled the economy to expand. The goal of this paper money, according to Kelley (1877), was not to disrupt class relations or threaten the free flow of commerce. Rather, it was about enabling those that wanted to work to work and to help make this happen the government was being asked, "to maintain a familiar medium of exchange whereby capital and enterprise may pay labor for its work" (Kelley, 1877). Even though it is evident that Kelley and the Greenbacks are pro-capitalist there is a subtle but critical shift in their understanding of the source of money's value. By assuming government has the ability to create the money needed to fuel commercial exchange, the source of value is being socialized and consciously politicized.

In a pamphlet published in 1870 the author writes, "we do not need gold or silver for money, or as a basis for paper currency. All the money we need is legal tenders issued by the government" (Smith, 1870). The Greenbacks argued that the value of money has everything to do with the legal authority of government, and nothing intrinsic to gold, "Money is a creature of law, it is created and upheld by law" (Wolcott qtd. in Babb and Carruthers 1996: 1572). The notion that government could create money through acts of law, placed the source of monetary value in its hands, and challenged the theory that money's value was natural and outside of any legal act of government:

> "All money, whether it be gold, silver or paper, derives its chief value from the fact that governments do enact arbitrary laws declaring money for the payments of debts, thereby creating the chief demand for it." (Ensley qtd. in Babb and Carruthers, 1996: 1570)

This conclusion raised deeper questions around what control over money creation meant. An argument emerged that claimed the right of the voting citizens, whose demands would be expressed through their representative government, to control the creation of money:

> "We, the people, make the government. We give the government power to make, provide and issue money under proper rules and regulations…We make our money, we issue it, we control it. We regulate it." (Wolcott qtd. in Babb and Carruthers, 1996: 1572)

The advocates are not claiming their individual right to create money or the right of an individual State to create money; nor is it aimed at challenging the Federal Government. Rather, the argument is to reinforce the existing system of government, and helps solve the tension between scarce money and the expanding economy, by placing the power to create money in the Government's hands. These are important distinctions, separating the Greenbacks debate from those of the 1770's or of those that appear in the 1980's[9]. In fact, it could be viewed as the historian Sharkey has claimed, that all of the debates including the radical ideas of the Greenbacks, were aimed at perpetuating the existing class relations and not disrupting the system of governance that relied on the idea of natural inequality and private property (1959: 33).

The rise of a political force that articulated the need for an adequate supply of currency, and linked the source of money's value to political decisions reinforced by legal tender laws, enabled them to place the responsibility for maintaining this currency in the hands of the Federal Government. According to Babb and Carruthers, "The greenback debates contested the nature of monetary value and the proper role of democratic government in finance" (1996: 1573). The Greenback Party had managed to rearticulate the long running tension between a concept of scarce money and an expanding economy, by showing that there need be no real shortage of money. The solution that

9 The reference to the 1980's is a reference to the community currency movement. I will engage this subject later in this paper.

the Greenbacks were pursuing was one aimed at expanding the commercial economy by expanding the volume of money, not by increasing the volume of credit (and the associated trappings of debt and money scarcity). This important distinction places the responsibility for sufficient supplies of currency on the government and not on the banks. Importantly, it attempted to break down an idea that claimed the creation of money was outside of government's control. The Greenbacks central argument was that, "economic value could and should be subject to conscious, democratic control" (Babb and Carruthers 1996: 1573).

The Specie Resumption Act stipulated that all paper money was to be returned for gold to the Treasury by January 1, 1879. This date came and went, and over three hundred million dollars worth of greenbacks (as the paper money came to be called) remained in circulation and retained its status as money into the twenty-first century (Davies 2002: 496). This is a critically important moment in American history because it subtly influenced and gave support to some of the emerging (and radical) theories of managed paper money systems being explored within academic circles (Laidler 1991: 198)[10]. The Greenbacks had managed to introduce ideas into political debate that pointed to the role of government and showed the potential for alternative ways of creating money, that in fact would be, despite historical beliefs, compatible with the existing capitalist democracy.

Despite the fact that the Greenback Party never specifically argued for the "democratization" of money, they did argue for its politicization within the context of the capitalist democracy. They saw it as a political conversation, driven by government who is voted into power on the assumption that they will represent the interests of the people. However, placing this into the broader arch of history it is clear that those "representatives" are closely aligned with a particular view that argues for the naturalness of money value and class inequality. Late twentieth century orthodox economists continued to cling to their "model of money supply" which was, "an empirical generalization of a naturally constrained supply of a metallic monetary base provided by a central authority (the mint) that was outside the market" (Ingham 2004: 21).

COMMUNITY CURRENCY MOVEMENT

The historical trajectory of the financial debates in the U.S.A. has always pursued the same goal – the reinforcement of the capitalist democracy and the underlying inequality of class relations and property ownership. This effort has aimed at guaranteeing the compatibility between the capitalist democracy and money and credit creation. However, there is another debate that has run in parallel to this one that is marked by the efforts of the colonial legislatures in the 1770's, and in several critical ways by the Greenback Party of the 1870's, and a new movement that has risen since the 1980's known as the community currency (CC) movement[11]. The commonality between these debates has been the effort to challenge the assumed critical need for a scarce money supply. The efforts of many CC advocates pick up on some of these earlier arguments, highlighting the social element of money and claiming, uniquely that individuals can create their own money. This is driven by a conceptualization of democracy that does not appear to be compatible with the Federalist notion of capitalist democracy.

Many advocates of CC argue for the democratization of money via the creation of abundant supplies of money. Many claim that the scarcity of money and credit is deleterious to the economy and the cause of rising inequality and economic instability as well as environmental destruction. Whether their analysis of the impacts is correct or not, what they are doing is challenging the role and relevance of both the Federal Government and the banks in the currency creation process. These efforts present a new and unique phase in the history of the monetary debates.

These CC advocates do not accept the notion of democracy that President Wilson claimed in 1913 when he stated that the creation of the Federal Reserve System represented the "democratization of credit" (qtd. in Wickware, 1915: 51). Similar to earlier debates, this process is framed as benefiting the wealthy merchant and banking classes while exacerbating the instability of the entire financial system. However, unlike the Greenbacks, the CC movement views the increasing role of government as representing the further privatization and centralization of the creation of money. On the website of Berkshares, a CC based in the northeastern U.S.A., they claim that, "The banking system is one of the most centralized institutions of our economy and

10 Knut Wicksell, and other monetary theorists of the late 1880's and 1890's, had begun to work hard on theorizing credit and exploring non-specie based monetary systems (Laidler 1991: 198). Their efforts were driven in great part by their desire to create a system that was more stable and that would give the capitalist economy a more reliable medium of exchange. The solutions and ideas that emerged during this period would impact the likes of J.M. Keynes who built much of his earlier work off the theories of Knut Wicksell (Laidler 1991: 198).

11 This term encompasses a broad range of monetary experiments that go by a range of names: local currencies, social currencies, time banks, local exchange trading systems, local money, complementary currencies. This section does not attempt to articulate all of the nuances between these different experiments, but rather to make a generalization about the particular political conceptualizations upon which they operate.

one of the major obstacles to strengthening regional economies and the communities within them" ("What Are Berkshares?"). This framing seems to discount the historical context within which the Federal Reserve was created; it was created to limit the negative impact of the nineteenth century pattern of hoarding and monopolization of gold money by the private banks. And, in particular to deal with the resulting inadequate and unreliable supplies of credit, which were especially threatening to the free flow of commercial exchange and a threat to the entire capitalist democracy.

The way to combat this privatization and centralization, according to many CC advocates, is to end the government and bank's monopoly over currency creation and to instead give power to small local communities and individuals to create their own money. This desire to end the centralized system, and to return to an era of competing money issuars is also connected to the idea of ending the politicization of money creation[12]. In fact the claim is made that government doesn't even need to "give" this power to citizens; citizens just need to assert their own money creation power. Thomas Greco, an author and advocate of CC, states that, "we have called for the separation of money and state, but since the people do not control their government, we believe that separation can only be achieved as the people assert their money power" (Greco 2009: 111). Greco goes on to claim that the, "politicization of money has inhibited the widespread adoption of better alternatives" (Greco 2009: 118).

Part of what the CC advocates see as unique about this current moment in history, is the rise of information and networking technologies, which offer a range of possible alternative decentralized approaches to creating money. CC advocates that run several websites and actively work to produce the technological systems that enable anyone to create a currency claim that, "given how much information technology has evolved recently, the members of a community can be their own arbiters" (Brock, "New Currency Frontiers"). The technology is essentially framed as replacing the role of government or banks; decentralized "currency design will mean the obsolescence" of any sort of dependence "on any form of central authority" (Brock, "P2P Currency"). These advocates recognize that they are challenging the history of centralized currency creation, "Almost all currency designs to date (dollars included) depend on either a scarce commodity (such as gold or paper notes) or a centralized authority to issue and/or track the currency (barter clubs, time-banks, etc)" (Brock, "P2P Currency")[13]. For these advocates, "The new frontier is about open currencies which do not exist by mandate of banks or government they are distributed and un-enclosable systems of wealth creation which can be designed to benefit more than a privileged few" (Brock, et al.; "New Currency Frontiers").

CC advocates typically do not see government as representative of their interests, and therefore they are looking for ways of solving the scarcity of money via new means. This perceived failure of not just the government but also of the banks, signals a key shift in the history of the financial debates. The advocates of CC are not looking for solutions that fit within the historical understandings of class inequality and representative government. In essence the system of representative government, built to enable capitalism, is failing to meet the demands of at least the CC advocates, if not a large swath of society. The potential disruption to the entire political economy is huge, and figuring out how to design a system of money creation that returns a sense that the Federal Government actually is representing and mediating the needs of all classes, may be of critical importance to the survival of capitalist democracies.

Margrit Kennedy, who has written and lectured extensively on CC has argued that, "Money can be made to serve rather than to rule, to be use—rather than profit-oriented—and to create abundance, stability, and sustainability" (qtd. in Stonington, 2004). She said that while "money is one of the most ingenious inventions of mankind" it has "the potential to be the most destructive or most creative" (qtd. in Stonington, 2004). Money, credit and currencies in general, are the product of a long series of social decisions. These decisions have historically focused on designing a system of money creation that is both compatible and reinforcing of the underlying class inequality necessary for the smooth operation of the American capitalist democracy. The rise, since the 1980's, of a new set of financial debates, represents a unique challenge to a long running theory of money and credit creation. The CC advocates are pointing to the sense that the current financial system is failing; their solutions are not focused on saving the current system but of fundamentally reconfiguring the entire political economy. No theory of money creation has attempted to articulate an alternative political economy since the failed efforts of the colonial state legislatures of the 1770's. Democratic money, according to CC advocates, is a type of money and credit that envisions a new political economy built on class equality – it is a vastly different conceptualization of democracy that underpins this idea. The CC movement is rearticulating the roles of government and banks, while raising deeper questions about what it means to create money democratically.

12 Frederich von Hayek, the Nobel prize winning free-market economist, was a big advocate of what he called, "the denationalization of money" arguing for private companies to issue their own currencies and allow the market to determine the value of money (von Hayek, 1976). Part of his argument rested on his antipathy towards what he also saw as the politicization of money. This represents another of the several ways in which the CC movement comes to mirror or build off free-market capitalist economists.

13 It is important to point out that Brock et al, differ from many of the other CC advocates in that they do not see a role for a valuable commodity, and have a different notion of value from that which many of the other advocates adhere to. I have written about this in greater detail in Wainwright, 2011.

CONCLUSION

Claims to be democratizing money have been made repeatedly throughout the history of the U.S.A's existence. The original efforts of colonial legislatures to create inflationary money, aimed at leveling society, were built of a conceptualization of democracy that were modeled on original ideas of Greek democracy – a system of democracy that saw inequality and elections as anathema to a true democracy. With the rise of the Federalists in the 1780's a version of democracy emerged that accepted inequality and representative elections. Under this historically specific idea of a capitalist democracy efforts centered on creating money in ways that would not threaten the existence of inequality. The product of this framing resulted in increasingly centralized money creation with a cozy relationship developing between the dominant merchant and banking class and the Federal Government. The Federal Government has continued to claim that the dominant and centralized form of money creation is the most democratic way of creating money; a way of creating money that was also most compatible with a system of capitalism and its inequality. In the 1860's a rare moment emerged in American history in which these claims were challenged and new ideas of abundant, government created money, were promoted. The important distinction being made that money could both be abundant and capitalist while claiming to be democratized. All of these earlier historical debates – those of the colonialists, Federalists, Greenbacks, and Federal Reserve advocates – all claimed to be democratizing money. These claims all have to be placed into the historically and geographically specific context in which the theory of democracy is being framed. The rise of the CC movement in the 1980's represents a new claim to be democratizing money, a claim that seems to be in many ways counter to the over two-hundred year understanding of democracy, which emerged out of the Federalist debates of the 1770's.

This paper has not attempted to claim to know what is democratic money; rather it has attempted to show how money creation has been driven by the context within which it is operating. And, for the past two hundred years this context has been within the American capitalist-democracy – a form of democracy that is compatible with capitalism and accepts inequality. Today's CC advocates seem to be challenging this conceptualization by proposing a type of democratic money that no longer seems compatible with capitalism. They would do well to explore this history further by exploring the relationship between democracy and capitalism within the context of money creation.

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