GOVERNMENT PUBLIC CREDIT

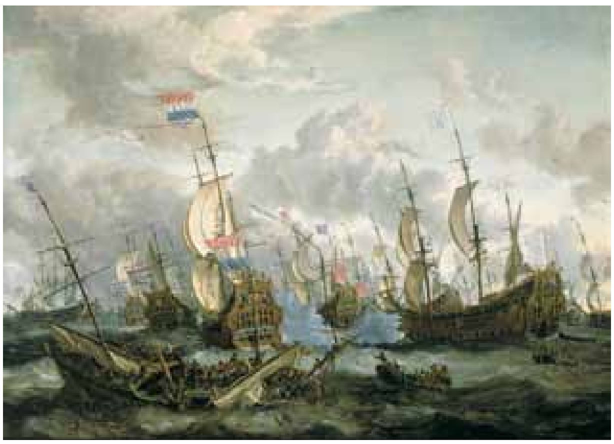
The Way Out of the Crisis—The Historic Precedent of the American Colonies[1]

by Roger Moore

Money is the creature of law, and the creation of the original issue of money should be maintained as the exclusive monopoly of national government. Money possesses no value to the state other than that given to it by circulation.

—United States President Abraham Lincoln, weeks before his assassination in 1865, justifying his issuance of government credit in the form of the Greenback currency, during the Civil War.

WIESBADEN, Germany, May 22—Approximately one century prior to the American Revolution, the German philosophical genius, Gottfried Leibniz, enunciated the first modern scientific approach to defining principles of economics based on human development. Leibniz's method was one of *physical economy*, as opposed to monetary and statistical notions of wealth. In 1671 he authored two works—*Society and Economy*[2] and *On the Establishment in Germany of a Society for the Promotion of Arts and Sciences*[3]—in which he investigates the principle that human discovery and creativity, particularly as expressed in scientific and technological inventions, form the basis of a productive economy and human progress. These two works were written just prior to Leibniz's move to Paris, where he was to work in the orbit of Jean-Baptiste Colbert, the First Minister of State, who had led the economic revival of France.



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The Dutch-English wars made London the eventual center of power, based on seapower.

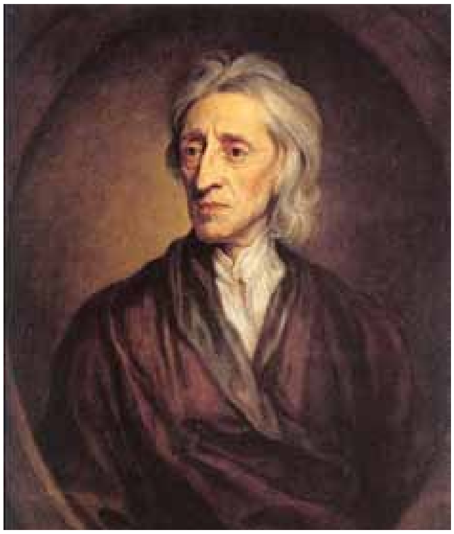
Leibniz vs. John Locke: The Emergence of Imperial London

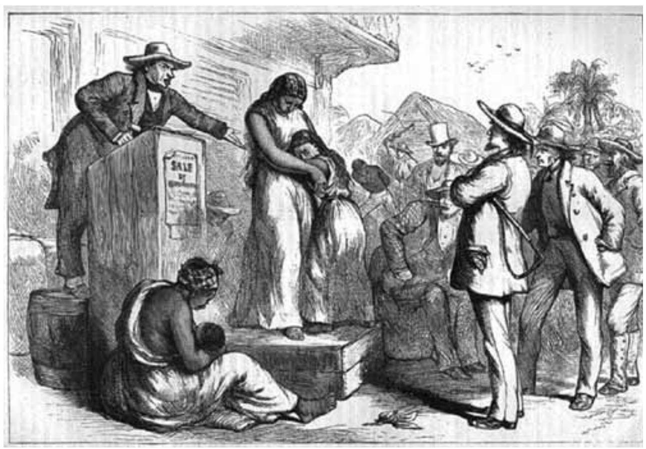
Gottfried Wilhelm Leibniz's first diplomatic deployment by the Elector of Mainz in 1672 to Paris, at the age of 27, ultimately failed in its explicit effort to head off King Louis XIV's war against Holland,[4] a war that resulted in a the unraveling of the 1648 Peace of Westphalia, the peace treaty which earlier had ended the savage destruction of the Thirty Years War. This unraveling, however, was not some design of the foolish French King, but a calculated intrigue by Europe's imperial monetarist faction to make London the eventual center of power for an unchallengeable world empire based on sea power. London was assigned to gain imperial dominance over the income stream of the trans-Atlantic slave trade and to impose a "globalized" corruption on the colonies in the New World—using slave (and peon) labor for plantation-driven production of commodities, largely sugar and tobacco. Not only did Louis XIV finance an English attack on Holland, just before his own, but with his land war, he squandered the French fleet, which had

1. A version of this article was first circulated in 2009.
2. http://www.larouchepub.com/eiw/public/1991/eirv18n01-19910104/eirv18n01-19910104_012-leibnizs_first_writing_on_societ.pdf
3. http://www.schillerinstitute.org/fid_91-96/922_liebniz_A_and_S.html

4. See U.S. naval officer and historian A.T. Mahan's *The Influence of Sea Power Upon History 1660-1783,* p. 141: "Leibnitz proposes to Louis to seize Egypt."

been built up by Leibniz's patron in Paris, Jean-Baptiste Colbert, the First Minister of State. In fact, this war created such domestic turbulence in Holland that it resulted in the seizure of power by William of Orange, who later became, in 1688, King William III of England! And thus, with both the French and Dutch—the only other relevant maritime military powers in the world—suffering the results of wartime destruction and bankruptcy, London began its pre-designed ascendancy, which achieved, scarcely a century later in 1763, at the end of the Seven Years War, unchallenged imperial supremacy of the entire world. The Anglo-Dutch imperial monetary system—a system based on monetarism, slavery, and enforced backwardness—now had a new military (largely naval) power center, the British Empire.





Pro-feudalist John Locke (top) promoted turning over the slave trade to London.

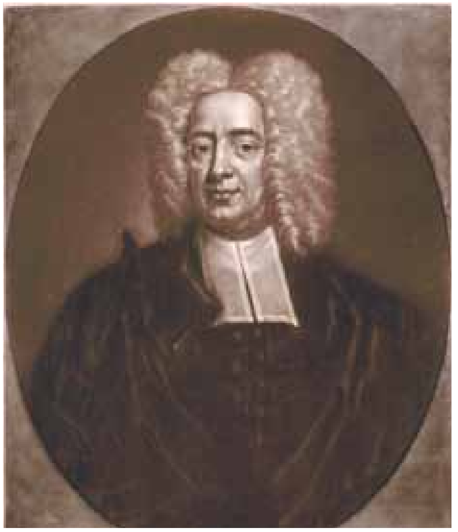
Ironically, the new, Britain-based imperial system soon suffered its first defeat, with the success of the American Revolution. The seeds of this defeat were already germinating in England's American colonies, exactly at the time that London's future imperial role was being crafted in the mid-1600s. The drive for sovereign development of the colonies, free from imperial monetarist trade and Europe's oligarchic corruption, was one continuity, including the Massachusetts Bay Colony's revolution in mobilizing *Public Credit* against private monetarism in the late 1600s, through to Benjamin Franklin's leading of colonial resistance to the Parliament of Great Britain's effort to suppress it with the Currency Act of 1764. The resulting conflict became the American Revolution.

The Netherlands had long been the main trans-Atlantic slave-trading and commercial maritime power with its Dutch West Indies Company. It is no mere coincidence that—in furtherance of the imperial scheme to promote London—John Locke, Leibniz's adversary, in 1672 was a co-investor along with his patron, Anthony Ashley Cooper, the Earl of Shaftesbury, in the newly founded, London-based Royal Africa Company (RAC), created to turn control of the slave trade over to London. In 1673, Locke was appointed Secretary to the Council of Trade and Plantations, which supervised the deadly triangular trade of slaves, sugar, and manufactured goods. Locke had been no stranger to this schema, having been secretary to the proprietors of Carolina in 1663. He was also the author of the *Fundamental Constitutions of Carolina* in 1669, an infamous document promoting feudalism and slavery. The RAC was later to take over the Spanish contract for supplying Spain's new world colonies with African slaves, called the *Asiento*. The idea?—military hegemony over commodity production using globalized slave labor. It was a strictly Venetian concept: London becomes hegemonic militarily and otherwise hegemonic, and other nations and interests are relegated to the role of mere subcontractors. Today, the continental European nations of the euro currency zone still haven't learned this lesson, that they are mere subcontractors to London's control over what is left of global monetarist finance.

The American Response: Public Credit versus Private Imperial Monetarism

Discussions in the New World, in particular the Massachusetts Bay Colony and Connecticut, were directly opposed to these disasters for humanity. These American colonies focussed instead on how to finance their actual development, free from the hegemonic monetarist trading schemes reigning over all of Europe and London, trading schemes that necessitated the expansion of slave economies across the Atlantic, in the Americas.

It is a noteworthy irony of history, that out of a few "new world" English colonies, with but tens of thousands of inhabitants, there emerged states with virtually republican Charters, as in the case of the Massachusetts Bay Colony, from which were to be born that United States of America, with its Constitution, which estabished the precedent for any possibility to end imperial monetarist control over sovereign nations' finance.



Cotton Mather

Wikipedia

The integrated Saugus Iron Works of Massachusetts (1646).

In 1690, Massachusetts had uttered the first Public Credit, in the form of government *Bills of Credit*, that the western world had ever seen. Alexander Hamilton, the key author of the new Constitution of the United States of America, incorporated this tradition in the new government's national bank, the First Bank of the United States.

The American colonies had continually suffered under the London-orchestrated monetarist trade system which subordinated real economic criteria to the manipulation of gold and silver coinage, and the trade deal advances (bills of exchange) of the London merchant houses. As seen in the case of John Locke, in both his authorship of the Carolina colony slave trading constitution, and in his Royal Africa Company investments, this trade system was dominated by the Caribbean-centered slave economies which were expanding into the southern colonies.

Means of credit circulation for industry, like the integrated Saugus Iron Works of Massachusetts (1646), or other manufactures and agricultural development, outside of this London monetary system and commodity trade, were non-existent. Thus arose the necessity to use the authority of government to create Public Credit, and its monetization, for purposes of domestic economic development and trade. Were Cardinal Nicholas of Cusa alive to witness private chartered companies exploiting slave and peon labor, corrupting the New World project he had personally launched, he would have shuddered in disgust.

In the 1650s, Connecticut Governor John Winthrop Jr. (a correspondent of Johannes Kepler) had been in correspondence with Samuel Hartlib in London, reviewing one William Potter's proposals, incorporated in his *Keys of Wealth* (London, 1650), for the establishment of a Land Bank to issue Bills of Credit to landowners (farmers), which Bills would then circulate as paper money and would be given the status of *Legal Tender*, as means of payment of all contracts. John Winthrop Jr. and his father, like Increase Mather and his son Cotton Mather, were prominent 17th-century leaders of colonial America. Winthrop Jr. had written in 1660 to Hartlib that his own conception of a Land Bank could be implemented on much better terms than Potter had proposed for England, even including Hartlib's own thoughts on Potter's proposal incorporated in the Hartlib pamphlet, *An Essay upon Master W. Potters Designe* (London, 1653). During a Summer 1661 trip to London, Winthrop Jr. submitted a proposition to the Royal Society for a such a bank. A subsequent correspondence of Samuel Hartlib, which was called *Talent of the Bank of Lands & Commodities,* documents his support for Winthrop's proposal.[5]

Thus, in these first decades after the 1648 Peace of

5. Andrew McFarland Davis, *Currency and Banking in the Province of Massachusetts Bay*, 1901. Volume II, Chapter IV.

Isaac Newton, a monetarist, was deployed to the Royal Mint 1696.

Westphalia, the soul of what had been best in England and throughout Europe was already transferred to the American colonies. The Bank of Venice and the Venetian-inspired Dutch Bank of Amsterdam (1609) were by then already hegemonic in Europe, and their monetarist methods were much discussed among London's Lombard Street goldsmiths, the city's proto-bankers of the day. This Venetian tendency took control and eventually created the imperial "dream team" of John Locke and Isaac Newton, who concretized the Venetian "reforms" of 1694-1696 under the Anglo-Dutch reign of Queen Mary and William of Orange (of Holland) of 1688 "Glorious Revolution" infamy. In 1696, Locke and Newton were deployed, Locke to head the Privy Council's new Board of Trade (controlling trade with the colonies), and Newton, to the Royal Mint, for the new monetarist coinage reform. This effort followed the founding of the Bank of England in 1694 to service private financial interests.

But, just prior to this, the Massachusetts colonial assembly used the unsettled conditions in England—after William of Orange's 1688 invasion of England—to overthrow the colony's Royal Governor Andros in 1689. Andros had stopped a short-lived Land Bank experiment in 1688 and voided all land titles, returning ownership to the Crown. In 1690, as described by Cotton Mather in his *Magnalia Christi Americana*[6] and his 1691 pamphlet "Some Additional Considerations on the Bills of Credit Now Passing in New England . . .," the elected assembly then uttered and distributed paper Bills of Credit to pay returning militia members involved in a failed military operation against the French in Canada. These Bills of Credit then, in turn, served for further use as generally accepted paper currency (monetization). Cotton's father Increase Mather was in London at this time, fighting for the return of Massachusetts' republic-style Charter, which had been nullified by London in 1686.

Cotton Mather's 1691 pamphlet defended this revolution against the London "hard money," "intrinsic value" practices dominating the London trade system, which only functioned to drain the colony of coinage and wealth. He describes the process of the General Court of Massachusetts (the elected assembly) uttering Public Credit which becomes paper currency:

> What is the use of coyned silver? but to furnish a man with Credit, that he may obtain from his Neighbours those Commodities, which he hath occasion for? The Country in General Court, have Recognized or Acknowledged, a Debt of so many thousand pounds unto them that have been the servants of the Publick. The Credit conveyed by the Bills now Circulates from one hand to another as mens dealings are, until the Public Taxes call for it. It is then brought in to the Treasurers hands, from which it goes not out again. Now the Conveniences which the servants of the Publick, have had by them, have honestly paid the Countries Debts; and what could coyned Silver have done more?

In 1692, according to State of Massachusetts archives, the colony mandated

> that all Bills of publick creditt, issued forth by order of the General Court of the late Colony of the Massachusetts Bay, shall pass current within this Province in all payments equivalent to money and all publick payments a 5 per cent advance.

This 5 percent tax cut, upon paying taxes with the paper Bills of Credit, was designed to stabilize their value and use in normal private trade within the colony. Withdrawal of the paper Bills of Credit and continual

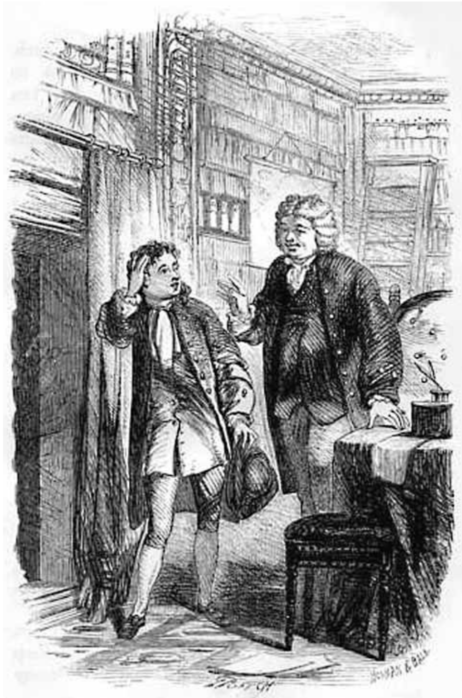
6. On pages 190-191 of the books.google.com scanned 1855 edition, one finds Cotton Mather's account of the issuance of the Bills of Credit.

re-issuance by the assembly made them the key factor in domestic trade.

By the early 1700s most of the colonies had introduced Bills of Credit to facilitate their economic development. The Bills of Credit, issued for government purchases, were often accompanied by Assembly-created Land Banks (also known as Loan Banks or Offices). They too would issue paper Bills of Credit as loans with interest, secured by the borrower's land as security, which the borrower would circulate as paper currency. According to Professor Richard Sylla in the *Journal of Economic History*:

> One can almost visualize a logistic diffusion curve as the Bay Colony's bills were emulated by South Carolina (1703), New Hampshire, Connecticut, New York, New Jersey (all in 1709), Rhode Island (1710), North Carolina (1712), Pennsylvania (1723), and Maryland (1733). The other three colonies eventually made use of the technique. A closely related innovation was the loan office (or land bank or loan bank, as it is sometimes called). Colonies organized these "banks" to lend bills to individual borrowers with land as security. South Carolina led the way in 1712, followed by Massachusetts (in 1714), Rhode Island, (1715), New Hampshire (1717), Pennsylvania and Delaware (1723), New Jersey (1724), North Carolina (1729), Connecticut and Maryland (1733), New York (1737), and Georgia (1755).

These were not Venetian-style banks, and they did not follow the oligarchic methodology of lending out money accumulated as deposits for usury by private financial cartels. They were part of the Assembly-enacted credit system built around government uttered Bills of Credit. As the Governor of Pennsylvania wrote about the 1723 Loan Office utterance of £45,000 of paper money loans, at 5 percent interest, with no more than 100 pounds to a person:



Benjamin Franklin (left) fulfilled the legacy of Cotton Mather (right) and John Winthrop, Jr.

> The poor middling People who had any Lands or Houses to pledge, borrow'd from the Loan-Office and paid off their usurious creditors; and to render them more easy for the future, as well as to bring Things nearer to Par, lawful interest was reduced at this Time from eight to six per Cent, by which means the Town was soon filled with People, and Business all over the province expanded at a great rate.

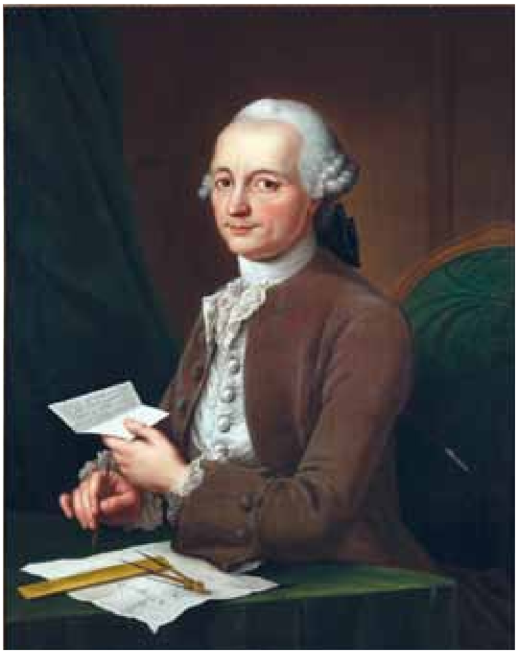
Benjamin Franklin Fulfills the John Winthrop Jr. and Cotton Mather Legacy

In 1720, London imperial authorities sent out circular instructions to colonial governors demanding they suppress the Bills of Credit, and by 1726, the British Lords of Trade and Plantations threatened to appeal to the King to repeal Pennsylvania's acts *"if any further Acts [were] pass'd for creating more Bills of Credit"* to circulate as money. In 1729, a 23-year-old printer, Benjamin Franklin, established himself as the theoretician of this ongoing practice, when he penned an essay in support of the Pennsylvania Assembly issuing new Bills of Credit: "A Modest Enquiry into the Nature and Necessity of a Paper-Currency."

After the death of his aging acquaintance Cotton Mather in 1728, Benjamin Franklin emerged as the leading figure—the champion—in defense of the colonies and their Public Credit system, a role he maintained for five decades straight through to the Revolution.

London repeatedly sought to end the colonies' sovereign act of Public Credit utterance. Acts of Parliament, Royal Decrees, and Board of Trade directives were all utilized to force colonial Royal Governors to crack down on the assemblies which authorized the Bills of Credit. In 1743 Massachusetts governor William Shirley (or one of his supporters) wrote a defense of the Bills of Credit entitled, *An Enquiry into the State of the Bills of Credit of the Province of the Massachu-*

setts Bay of New England.[7] It followed a bitter battle in the Bay Colony around the Land Bank effort of 1740, which was suppressed by Parliament and London's colonial agents. Economic warfare by manipulating specie and trade with the colonies could be used to devalue the circulating Bills of Credit. Like the post-U.S. Civil War "specie resumption" effort, this "hard money" campaign was used to force withdrawal of the Bills of Credit, and Great Britain delivered to Massachusetts gold and silver specie in payment for colonial military expenses, but, with IMF-style "currency reform" conditionalities attached.



Benjamin Franklin met scientist Abraham Kästner (shown here) in Germany in 1766.

The resulting Massachusetts Currency Reform Act of 1749, imposed on the province, began so:

> An Act for drawing in the Bills of Credit of the several Denominations which have at any time been issued by this government and are still outstanding, and for ascertaining the rate of Coin'd Silver in this Province for the future.

Following these measures to crush Public Credit in Massachusetts, on June 10, 1751, the Parliament of Great Britain enacted the Currency Act of 1751, extending the war against Public Credit to all New England colonies. It began with the following heading:

> An Act to regulate and restrain Paper Bills of Credit in his Majesty's Colonies or Plantations of **Rhode Island** and **Providence Plantations**, **Connecticut**, the **Massachusetts Bay**, and **New Hampshire** in America; and to prevent the same being legal Tenders in Payments of Money.

Although the French and Indian Wars (Seven Years' War, 1756-63) made it possible for the colonies to continue issuing Bills of Credit for military expenses, this issue of sovereign Public Credit for the purpose of the physical development of the colonies increasingly emerged at the center of Benjamin Franklin's subsequent efforts to organize the Revolution. With the end of the Seven Years' War, Britain had attained global maritime and military supremacy. Following the Treaty of Paris in 1763, the private British East India Company became the cornerstone of the British Empire. When the Parliament of Great Britain enacted the Currency Act of 1764, that Empire promptly began an aggressive effort to suppress the actions of the American colonies. This act extended the Currency Act of 1751, imposing an imperial prohibition on the further issuance of legal-tender paper currency to all the other colonies. Franklin's reaction was immediate, and he went off to London, representing Pennsylvania, but leading the effort of all the colonies against this and related imperial impositions like the Stamp Act. This was not merely against Great Britain, but a fight against an imperial financial conglomerate which had made London its center.

In the midst of his battle in London against the Empire's effort to suppress sovereign Public Credit in the colonies, Franklin took the time in 1766 to visit Hanover and Göttingen in Germany, meeting there with Rudolf Erich Raspe and scientist Abraham Kästner. With Raspe, he visited the Leibniz archive in Hannover and presumably discussed with his two interlocutors the profound principles enunciated by Leibniz, which had been brought back to world attention by Raspe's 1765 publishing of Leibniz's long suppressed attack on John Locke, *New Essays on Human Understanding*.

From that 1766 visit by Franklin to Hannover and Göttingen, it would be but a scant half-score years until the *Declaration of Independence* was issued by the American colonies. Thus did Benjamin Franklin begin the final phase of revolutionary activities leading to the success of the American Revolution.

7. The full text of this history of Bills of Credit in Massachusetts, beginning in 1690, is available on the Internet at http://etext.virginia.edu/users/brock/ Enquiry.htm