

**Democratic Money: The Case for a Decentralized Monetary System**  
By Bryn Meyer

**Chapter Three: Control of the Medium**

*The issuing power of money should be taken from the banks and restored to Congress and the people to whom it belongs. I sincerely believe the banking institutions having the issuing power of money, are more dangerous to liberty than standing armies.*

— Thomas Jefferson

I believe the goal should be to design an exchange technology that is able to complement an ideal market economy. Such a technology could help to create and maintain an economic structure that permits us to meet the conditions Adam Smith assumed. This requires we take a step back and clarify what role money plays (or should play) in our economy. General economic theory holds that money has four primary functions: 1) medium of exchange, 2) unit of account, 3) standard of value, and 4) store of wealth (Rukstad, 1992). According to Thomas Greco, this means that the essential characteristic of money is (or has become) information. Hence, its most basic function as an exchange medium is communication.

Historian, Mark Kinney asserts that each “civilizational phase” is defined by its communications medium, which in turn corresponds with certain patterns of thought and behavior. Money is arguably one of the greatest conceptual tools ever created by mankind. It is the communication technology that we rely upon to command resources. As noted by Michael Linton, “Money is information we use to deploy human effort.” It also “validates knowledge” (Greco, 1990). Without this technology it would be impossible for our society to coordinate the volume and diversity of productive activity on which we depend. A cursory review of developments in communication technologies during the modern era shows that the dominant trend has been to “etherealize” our methods of communication so that they achieve more with less work. According to Kinney, “This means that each succeeding communication medium outperforms its predecessor by accessing greater volumes of information of greater precision to more people over greater distances with less effort” (Greco, 1990).

Kinney goes on to argue that our communication technologies deal in two basic types of information; *formulative* information, “by which we can design and plan most any kind of project” and *executive* information, “which concert the precise qualities and quantities of productive resources needed to put those plans into operation” (Greco, 1990). Unfortunately, the various developments in modern communication technologies have resulted in two conflicting trends. The first is a consequence of improvements made in technologies, such as telecommunications, which have decentralized formulative information making it increasingly accessible to the average citizen. The second, opposing trend, has two parts: the centralization of our monetary system, which is responsible for creating money and is the technology designed to communicate executive information; and the consolidation of money through corporate deregulation. These trends have produced the current situation in which the expertise needed to undertake a project is available to an ever-expanding number of people, while the technology to

command the needed resources is controlled by a small banking and industrial elite.

The problem, according to Greco, is that our monetary system has not kept pace with developments in other communication technologies.

This impedes the vast majority of people from acting in ways which are consistent with their values and beliefs and their own best interests, and gives undue power to those who sit at the top of the financial and state hierarchies. The projects which get carried out are those which tend to maintain and consolidate the power of the hierarchies, which at the same time are wreaking havoc with the environment and causing vast amounts of human suffering (Greco, 1990).

Society has reached a transitional stage. While other communications technologies have decentralized formulative information, control of our exchange medium (executive information) has become more centralized and consolidated, some might even argue monopolized, by large financial and industrial corporations. The centralization of banking and the deregulation of corporations, beginning in the late nineteenth century, has led to our current era of concentrated economic power with no democratic accountability.

#### *Development of Centralized Banking*

In the United States, our centralized banking system is a relatively new invention of the twentieth century. Prior to the Civil War, the United States had no central bank, nor any national banking regulations. State governments had the right to charter and regulate state banking institutions, including the power to set reserve requirements and regulate the type of investments and loans that banks could make. Given the economic power exercised by banks, early state legislatures were cautious in their chartering and oversight of state banks. Permitting these decisions to be centralized in a federal authority was unthinkable.

During the Civil War economic necessity convinced the federal government to do the unthinkable. Congress passed four pieces of legislation, which introduced a new era of national banking: 1) the 1862 legal tender laws; 2) the 1863 National Banking Act; 3) the 1864 act outlawing private coinage; and 4) the 1865 act imposing a 10% tax on state bank note issues (Solomon, 1996). These acts were the basis for what is referred to as the national bank era.

The 1862 legal tender laws authorized the U.S. Treasury to issue \$500 million worth in non-redeemable federal notes, called “green-backs” for the green ink they were printed in (Greider, 1989). This was a historically noteworthy experiment in government-issued money in the U.S. The legislation was instituted for practical considerations: it provided a means to fund the war without having to resort to direct taxation. But the legislation also had a significant impact on the country’s traditional monetary system. It effectively replaced the existing gold standard with a fiat monetary standard: money backed only by the federal government’s declaration that it was legal tender. The country would remain on the fiat monetary standard from 1862 to 1879 when the greenbacks were made convertible into gold, effectively ending the experiment and placing the country back on the gold standard (Solomon, 1996).

The 1863 National Banking Act provided for the establishment of a federally

chartered, private banking system. Each national bank was authorized to issue standardized bank notes, which were accepted at par by all other national banks. Initially these notes needed to be backed by federal government bonds, creating a forced market for government debt and another means of financing the Civil War. This statute also established a national reserve requirement on bank deposits, applicable to both national and state banks (Solomon, 1996).

The 1865 act applied a 10% tax on notes issued by state banks. Often referred to at the time as the “death tax,” this law was intended to standardize the nation’s currency by discouraging state banks from issuing their own private notes. The act was followed by a wave of re-chartering as state banks rushed to become national banks. Those that decided to remain state banks replaced their notes with account-book entries, demand deposits and checking accounts, as is practiced today. By 1866, the country’s currency mainly consisted of green-backs backed by government fiat, and national bank notes backed by government debt (Solomon, 1996).

By the time the gold standard was officially reestablished in 1879, reserve requirements instituted in 1863 had already been relaxed. However, banks were still required to hold a portion of their reserves in U.S. bonds. As a result the U.S. money supply could not grow without a corresponding growth in either the nation’s gold stock or government debt. Following the Civil War, the amount of outstanding U.S. government debt began a slow contraction. The nation’s money supply soon followed. When the gold standard was reintroduced at \$20 per ounce, the deflationary impacts were critical. By 1882, the country was well into the era known as the Great Deflation, a period in which price levels on basic commodities fell steadily for over thirty years coupled with punishing interest rates (Greider, 1989).

Farmers were the hardest hit during this period. Each growing season, as prices fell, they would see smaller returns on their yields. By the 1890s, crop prices had fallen to one fourth of their Civil War levels (Greider, 1989). Many farmers were pushed deeper and deeper into debt while trying to recoup their losses from the previous season. The problem was compounded by the rigid monetary system, which could not accommodate a farming economy’s seasonal demand for more money. When credit became scarce, it produced a domino effect in the banking industry. The squeeze would start in the South and the West as the year’s crops were brought to market. Rural banks were inundated with requests for short-term loans from farmers and from merchants in need of credit to finance the increase in trade. When the country banks had exhausted their reserves, they appealed to the larger city banks for temporary loans to supplement their lending ability. On it would go up the financial food chain. When the city banks ran out of reserves, they solicited the oldest and largest banks, located in New York, Chicago, and St. Louis, for temporary loans. If these banks could not, or chose not to deliver credit, the result was financial crisis and a rash of bank failures. The three major banking crises of this period – in 1884, 1893, and 1907 – all coincided with this seasonal credit crunch (Solomon, 1996).

Despite periodic bank failures, growth of the banking and financial industries was booming. Fortunes were made during the long period of high interest rates, which naturally meant higher profits for moneylenders, and financial power became more centralized in the large eastern banks. Country bankers and their rural customers were well aware that during the seasonal credit crunch it was the powerful Eastern bankers

who dominated Wall Street who could well decide the economic health of their region.

### *Consolidation of Economic Power*

Even while the federal government attempted to centralize control of the country's money supply in a federally chartered banking system, the right of state legislatures to regulate other corporations was under attack. During the first half of the nineteenth century state legislatures maintained strict control over corporate activity in their jurisdictions. Corporate leaders had been fighting these regulations for years in the courts. They hired lawyers, even created whole law firms, in their pursuit of weakened corporate charter laws.

It wasn't until after the Civil War that these efforts began to deliver substantial results. The Fourteenth Amendment, which ensured that no state shall "deprive any person of life, liberty, or property, without due process of law," was one of the three post-Civil War amendments, added to the Constitution in order to protect the civil rights of freed slaves. Using a creative interpretation of this amendment, corporate lawyers were able to persuade some state courts that corporations were "persons" within the intent of the Fourteenth Amendment, and should be legally treated on equal terms with individuals (Grossman, 1996). Hence, such things as corporate contracts and the rate of return on investments should be considered property under the law, and protected from interference by citizens or their elected representatives. In 1886, the principle of corporate personhood became enshrined under federal law in the landmark Supreme Court case *Santa Clara County v. Southern Pacific Railroad*. According to the summary record of the Court's findings, "The defendant Corporations are persons within the intent of the clause in section 1 of the Fourteen [sic] Amendment to the Constitution of the United States" (Korten, 2000).

The precedent set in *Santa Clara County* would be used in lower courts to justify overturning hundreds of local, state, and federal laws designed to enforce public sovereignty over corporations. In essence the courts "ruled that elected legislators, in enabling people to protect their communities and livelihoods from corporate domination, had been taking corporate property without due process" (Grossman, 1996). Some judges even went a step further and declared unions to be "civil and criminal conspiracies" intended to deprive corporations of their property (i.e. profits), and issued court orders enjoining workers from striking (Grossman, 1996).

According to law, it apparently was assumed that individuals and their communities could compete on equal terms with large, wealthy, national corporations. Despite the fact that the average individual would not have the funds to employ an army of lawyers, any conflicts that arose between individual and corporate interests would henceforth be mediated in the courts. For all practical purposes, the principle of corporate personhood granted corporations the right to use their economic power to command the property, labor, and resources of any region or community they chose, regardless of the inhabitants' wishes.

It was in this environment of economic consolidation and centralization that one of the most interesting popular movements in our nation's history was born – Populism. It began in Texas farm country as the Farmers Alliance in the late 1870s. By 1890, Populism was a nation-wide movement. The agenda of the movement, as stated in the "Cleburne Demands" of 1886, was to guarantee "such legislation as shall secure to our

people freedom from the onerous and shameful abuses that the industrial classes are now suffering at the hands of arrogant capitalists and powerful corporations” (Heinberg, 2000).

Unable to sell its unconventional ideas to either the Republicans or Democrats, Populist leaders started the People’s Party and nominated their own presidential candidate for the 1892 elections. The Party drew over one million votes, more than 8% of the popular vote, and won electoral votes from six states. But this was the closest the People’s Party would come to any real power (Greider, 1989). Despite its brevity, the Populist movement was a political turning point in our nation’s history. Populism made the last real attempt to reassert citizens’ traditional sovereignty over corporations.

In hindsight, the Populist agenda was far ahead of its time. The movement’s demands would become the sourcebook for political reforms in the next century: the institution of a progressive income tax; federal regulation of railroads, communications, and other corporations; legal rights for labor unions; government price stabilization and credit programs for farmers (Greider, 1989). But the movement’s core issue was relief from what farmers perceived as a ruinous monetary system, based on the gold standard and monopolized by the corporate banking industry – referred to by angry farmers as the “money trust”.

The Populist plan was blatantly inflationary, designed to bring crop prices back up to a sustainable level. Party leaders called for a democratized monetary system: a flexible money supply, issued by fiat, and managed by the elected government to meet the credit needs of a growing economy. To this end, the money supply would be slowly expanded through the government issuance of more silver and gold coinage and new paper money, similar to the greenbacks issued during the Civil War. Once the money supply had grown to meet current needs, future growth would be geared to “per capita circulation that shall increase as the population and business interests of the country expand” (Greider, 1989). In this manner, the country’s elected representatives, as opposed to a non-elected oligarchy of financiers, would democratically control the money supply “in the name of the whole people.” To the bankers of the time, the proposal was an invitation to inflationary excess. However, by 1914, the newly created Federal Reserve would adopt a rough outline of the Populist plan, but with control of the system far more centralized in the banking industry than the Populists proposed.

#### *Establishment of the Federal Reserve*

For all intents and purposes, the Populist agenda was politically defunct by 1896. The Democrats had co-opted the money issue by proposing their own inflationary reform, “free silver.” This plan called on the government to mint an abundance of silver coins in order to expand the money supply. It was a watered down version of the Populist plan, but enough to ensure William Jennings Bryan, the Democratic presidential nominee for 1896, the support of the People’s Party (Greider, 1989). When Bryan lost the election to McKinley, Populism was no longer a significant political player.

Despite the political defeat of the People’s Party, the dreaded “money trust” of Populist oratory would continue to haunt political discourse for years to come. The “money trust,” it was argued, was just a euphemism for J. P. Morgan, Wall Street’s leading financier. In this instance, the public’s perception was deserved. Morgan was the man other bankers turned to during crisis. When financial panics periodically swept

the banking industry, Morgan would come to the rescue and organize the major loan syndicates around the nation to provide the country banks with the needed reserves, for a tidy profit, of course. During a panic, Morgan was in the position to decide which banks received emergency loans and which would be allowed to fail.

But not all of the public's enmity for Morgan and his Wall Street colleagues, was deserved. Yes, these men regularly took advantage of their positions of power. When panic struck they took the opportunity to increase their own profits at the expense of others. However, despite the public's consensus, Wall Street did not cause the recurring crises. At the heart of the problem, was the country's rigid monetary system. The gold standard was not flexible enough to accommodate the seasonal surges in credit demand. Moreover, the country's banking reserves were immobile and distributed too thinly around the country to be easily redirected to small country banks when a credit crunch would hit (Greider, 1989). Despite being reviled for his power, J. P. Morgan was actually a stabilizing force on the monetary system. In many ways he operated as a central bank: the lender of last resort – albeit his actions were not seen as particularly altruistic. He was not loved, but he was indispensable. After his death in 1913, the Federal Reserve effectively assumed his function.

When the Federal Reserve Act began to make its way through Congress, its sponsors maintained that it would establish broad democratic control over the country's financial system, by finally placing the dreaded “money trust” under government management. However, as is often the case, rhetoric and reality did not coincide. In reality, the majority of the act was authored by the banking industry itself. The first draft of the bill, one strongly supported by the banking industry, provided for the establishment of a network of privately controlled regional Reserve Banks, its primary function to be the lender of last resort. Twelve in all, these banks would be controlled by a board of commercial bankers, which would be empowered by the federal government to function as a central bank. When this draft of the legislation reached President Woodrow Wilson, he insisted on one important change: instead of a board of commercial bankers, oversight of the system would rest with the Federal Reserve Board, its seven governors to be appointed by the President and confirmed by the Senate. The Board's stated role was to control and coordinate the activities among the twelve Reserve Banks. However, initially this occurred more in theory than in practice. Management of the Reserve Banks was left to their respective boards of private commercial bankers. In addition, each bank could elect its own representatives to serve as advisors to the Federal Reserve Board on the Federal Advisory Council (Greider, 1989).

The result of Wilson's compromise was the creation of a hybrid institution that attempted to mix private and public control. Its intended goal was to insulate the Fed's operations from political influence. As stated by the bill's sponsor, Democrat Senator Carter Glass of Virginia, the Federal Reserve would be an “altruistic organization... a distinctly nonpartisan organization whose functions are to be wholly divorced from politics” (Greider, 1989). For this reason, the Federal Reserve Act is an excellent example of the new cultural trend that would come to dominate American politics and businesses in the twentieth century – the technocratic perspective. This new perspective was highly critical of representative government and attempted to impose limitations on it. As its purveyors would argue, in this new age of growing complexity and scale, the masses of ordinary citizens were no longer fully competent to govern. Instead, issues of

great public importance should be left in the hands of legitimate “experts”, “bureaucratic technicians” with the specialized training to make objective decisions.

This new perspective was the hallmark of the Progressive movement. Populated by educated businessmen and professionals of America’s expanding middle class, the movement had much faith in the managerial ethic. “‘Good Government’ must be managed,” and as such government “managers” must at times ignore the opinions of a less competent public. As succinctly put by essayist, Walter Lippmann, “It is not possible to assume that a world, carried on by division of labor and distribution of authority, can be governed by universal opinions in the whole population.” In this new age of specialization, democracy should not be “bound to its original premises” (Greider, 1989). The money issues, that had raised such turbulent opinions in the nineteenth century, would be better decided by a group of disinterested “experts”, specialized in the science of economics.

To this end, members of the Federal Reserve’s Board of Governors were given 10-year terms, which later would be lengthened to 14 years. Once appointed and confirmed, a Governor could not be removed by either the President or Congress except through a complex process of impeachment, and then only for gross violations of criminal law. The Reserve Board was further insulated from executive tampering by the strategic scheduling of appointments. The terms of the Governors were staggered so that only one Governor’s term would expire every two years, ensuring that any President who wished to dominate the board through the appointment of like-minded Governors, could only do so at the end of his second term (Johnson, 1994).

Congressional oversight, in practice, is also quite limited. The Federal Reserve System generates its own revenues, so it’s invulnerable to Congress’ favorite coercive tool, the threat to rescind funding during the annual appropriations process. In theory, Congress has the power to alter or abolish the Federal Reserve System by a simple majority vote in both houses, assuming the President gives final approval (Johnson, 1994). But in practice, the Federal Reserve has shown itself to be quite adept at playing each party against the other. The Federal Reserve Act was inspired by both Republican and Democratic agendas. So whenever the Fed has faced the occasional challenge from either the left or the right, it has turned to the opposite for help. Furthermore, if any bill threatening to the Fed’s interests were to make it to Congress, it would face opposition from the banking industry, one of the most powerful lobbying groups in the United States (Greider, 1989).

Although the threat remains that Congress might actually exert its authority if the Fed’s policies were to seriously conflict with the Congressional agenda, in reality the Federal Reserve Act created an independent regulatory commission. Later reforms would only serve to centralize its power even more. For the United States, previously a model of political liberalism, these developments were a profound shift in the political environment. As author and political journalist William Greider explains:

[A]s a political arrangement, the American money system was profoundly conservative. Control was concentrated in a relatively few hands—the banking system and the Federal Reserve—and was shielded from any interference by other interests. The national government, the democratic equivalent of a sovereign, possessed the unique power to

create credit and money, yet it delegated the power to others, a select group of private corporations that were licensed as commercial banks, without any specifications as to how the banks should allocate the credit... The choices made by bankers had profound political consequences: which economic sectors would flourish, which cities and neighborhoods and regions of the country would thrive, and which ones would struggle or even perish. The Federal Reserve remained silent on those questions, adhering to a laissez-faire ideology. Those priorities, it maintained, were better settled in the free-market auctions (Greider, 1989).

In other words, the rational individual could no longer be trusted to make the really important political decisions. Instead, the money question was to be entrusted in this new administrative body of banking experts.

### *The Technocratic Perspective Today*

In many ways Populism was a far more politically sophisticated movement than what we often see today. The Populist agenda did not sell out to the technocratic and managerial perspectives, which came to dominate the political and economic environment throughout the twentieth century. During the movement's heyday, the money question was constantly alive. Members of the movement, most of them "uneducated" farmers, had a far better understanding of the U.S. monetary system than most of today's public. They were intimately aware that the technology of money was inherently political, and it could not simply be treated as property. They understood that decisions as to who would be entrusted with the power to issue, manipulate, and own money, were not irrelevant academic issues but profoundly impacted their lives.

Today we are so immersed in the technocratic perspective that the money question has dropped from public awareness. Issues as to who owns money and how much, may crop up in political discourse from time to time. But the issues central to how the technology functions, the manner in which money is issued and how it's managed, are rarely approached.

Ironically, this oversight ensures that the majority of the American public has lost both political and economic freedom. Insulating the money question from politics has placed limits on the potential for democratic action. It also has limited the effectiveness of the exchange technology itself. By relinquishing control of our exchange medium to the banking and finance "experts," we've ensured that people far removed from the actual conditions in which the money will be used, are entrusted with the management of our monetary system.

The problem is one of context. As a communications technology, money can provide feedback on the well being of the economy at the regional and even local level, thereby enabling decision making much more appropriate to concerns at those levels. But when observed only at the national level, money data can lead to decisions and actions by the Federal Reserve that have negative impacts regionally.

The problem is partially due to the quality of generalized economic data. Take for example use of the Gross Domestic Product (GDP) as a measure of national economic growth. The GDP measures the combined market value of all goods and services produced within a country during a given time period. It records only activities that

result in the exchange of money. It doesn't take into consideration non-monetary production or the social impact of spending and non-spending (Halstead, 1996).<sup>1</sup>

For example, by this measure, unpaid household labor is not considered to be productive. Services that are universally perceived as a benefit to society, such as childcare, are not noted if provided by parents or extended family.

On the other hand, any activity that results in the consumption of goods and services, regardless of its social impact, is registered as a benefit. According to the GDP, even costly social pathologies are economically beneficial as long as they result in an exchange of money. An increase in crime leads to the construction of more jails, the expansion of our police force, and a rise in the sale of home security systems. Even the marketing and sale of cigarettes have a positive affect on the GDP, as does the health care costs incurred by treating the resulting lung cancer. If we rely on this as a measure of our economic well being, a prison inmate suffering from cancer registers as more valuable than a law-abiding househusband. Obviously this is absurd, but without the proper context there is no way to evaluate this monetary feedback. And national regulatory agencies, such as the Federal Reserve, are too removed to make a qualitative analysis realistically possible in every instance.

Even if the information carried by money were not corrupted by the malfunctions inherent to an interest-bearing currency, the Fed would still be limited in its ability to effectively administer the technology. The modern Federal Reserve relies on three major policy tools to influence changes in our nation's money stock and interest rates (thereby influencing levels of economic activity and employment): 1) Manipulating the reserve requirements for banks; 2) Setting the discount rate at which member banks and other depository institutions can obtain short-term loans when they need emergency reserves; and 3) Buying or selling U.S. government securities (Treasury bonds, notes and bills) on the private financial markets in New York (Johnson, 1994).<sup>2</sup>

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<sup>1</sup> The GDP was never intended as a measure of economic performance. Designed during the Great Depression, the GDP was an emergency measure used to gauge the performance of New Deal policies and, later, mobilization for WWII. Given the circumstances at that time, sheer output was the overriding economic concern. Unfortunately the GDP has been kept alive for the last 60 years, mainly through bureaucratic inertia. Ted Halstead and Clifford Cobb provide an excellent description of the limitations of the GDP within its modern context: "The GDP is the statistical distillation of the worldview of conventional economics. It is basically a measure of total output, and it assumes that everything produced is good by definition. It is a balance sheet with no cost side of the ledger; it does not differentiate between costs and benefits, between productive and destructive activities, or between sustainable and unsustainable ones. It is a calculating machine that adds but does not subtract. It treats everything that happens in the market as gain for humanity while ignoring everything that happens outside the realm of monetized exchange, regardless of its importance to well-being." Halstead is founder and executive director of Redefining Progress, a San Francisco-based, non-profit organization that studies economic policy. Cobb is research director of the same organization. One of the organization's goals is to challenge many of the basic economic premises that are currently used to measure economic performance (Halstead, 1996).

<sup>2</sup> The Fed's Board of Governors has the power to use the first two policy tools; manipulation of reserve requirements (the percentage of deposits banks must hold in reserve as a basis for lending) and the right to change the discount rate at which reserves may be borrowed directly from the Fed. Since the passage of the Monetary Control Act of 1980, all depository institutions, both member banks and non-member banks, are required to maintain their reserves with the Federal Reserve Bank in their region (Greider, 1987). The Board tends to change reserve requirements relatively infrequently, on average once every five to six years. The most recent adjustment occurred in 1996 when the Board set the reserve requirement at 10% on transaction deposits (Federal Reserve Bank of New York, 2001).

Even with these policy tools, the Fed's control over the national economy is quite limited. At this level, monetary policy can only influence the aggregate economy, but has no control over specifics. As Lewis D. Solomon explains:

[A] central system of money creation cannot create the correct amount of credit or money for local regions. A centralized system creates a general level of funds which may be excessive for a region experiencing a boom economy but inadequate for a region undergoing economic stagnation or a depression. In reality, nation-states are economic grab bags, with a variety of different economies. Each region or city has a distinctive character that makes it different from other regions or other cities (Solomon, 1996).

As a national administrative body, the Federal Reserve can only respond to statistical averages, thereby ensuring a one-size-fits-all monetary policy that is rarely what any one region specifically needs.

In effect, the technocratic perspective insulates economic decision making from democratic accountability. Unfortunately, it also insulates the decision makers from the non-economic consequences of their actions. This process finds its ultimate expression in neoliberal economic policies, as personified by the modern corporation. With the judicial declaration of corporate personhood, these entities obtained a legal shield that, to a large degree, has protected them from public interference. Corporations operate in an economic climate removed from the social and political environment they effect. This does not mean that they are unaware of social and political trends. On the contrary, corporations tend to keep close tabs on these issues. However, corporations receive their primary feedback from money, which means that corporate behavior, and even its very structure, is conditioned by the malfunctions inherent in conventional interest-bearing money. Due to the mechanism of compound interest, conventional money results in a perpetually scarce money supply, and compels continuous economic growth. The resulting economic structure manifests itself in several different ways in the corporate agenda.

First, there are the two most fundamental corporate drives: profit and growth. Profit is the only measure of corporate success, which in turn is reinforced by their legal obligation to pursue the profit motive before other concerns such as environmental and community welfare. According to corporate law, the primary function of management in a publicly held corporation is to maximize the profits of its shareholders (Mander, 1996).

The corporate growth imperative is similarly important. In their pursuit of profit,

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Influencing changes in the money stock and interest rates on a week-to-week basis is accomplished using the Fed's main policy tool, open market operations. When the Fed wishes to expand the money supply, it buys U.S. securities on the open market. The sellers receive checks drawn on the Federal Reserve. When deposited in a bank, the bank will acquire credit with the Federal Reserve (more reserves) and can now extend more loans. To shrink the money supply the Fed simply sells U.S. securities removing money from circulation (Solomon, 1996). These decisions are not made by the Board of Governors, but instead by a hybrid body, the Federal Open Market Committee (FOMC). The FOMC has 12 members, all seven Governors plus five of the 12 banker-elected presidents of the Federal Reserve district banks. The president of the New York district bank has a permanent seat on the FOMC, while the other 11 presidents serve on a rotational basis. In this manner, the banking industry has considerable influence on policy decisions, usually conservative.

corporations are constantly forced to compete for access to money. Given this environment, growth will determine how a corporation is perceived by shareholders, investors, banks, and in the stock market. Hence, corporations survive by their ability to prove competitive through sustained growth (Mander, 1996).

Second, the profit and growth imperatives are pursued through highly autocratic corporate hierarchies, where decision-making is centralized in top management. In a sense, corporations are well-oiled bureaucracies, centrally organized for the sole pursuit of profit. Given that conventional money has an inherent tendency to flow towards existing wealth, corporations are able to consolidate immense economic power, which in turn will be wielded in the further pursuit of profit without any democratic accountability. As a result, the global economy, with its purportedly “free markets,” is dominated by corporations that operate like centrally planned economies. As David Korten notes:

In the U.S. system of corporate and financial libertarianism, which is rapidly infecting Europe, Japan, and the rest of the world, no matter what authority a CEO may delegate, it may be withdrawn at any time. CEOs can virtually hire and fire any worker, open and close any plant, change transfer prices, create and drop product lines almost at will – with no meaningful recourse by the persons or communities affected. Such centralized power and control would surely have been the envy of any central planner in the Soviet Union (Korten, 2000).

This brings us back to the malfunctions inherent in money issued along with compound interest. Due to corporations’ size, structure, and economic power, corporate behavior magnifies the informational flaws communicated through money. One of the most socially and environmentally destructive flaws is that money is only able to measure value in terms of itself. That is to say, that all useful items, those goods and services that represent real wealth, are valued solely by their monetary price tag. Corporations can only measure value in terms of money; an “ethereal” commodity that recognizes no limits, and no benefits other than growth (of itself). The result is an economy that measures costs and benefits in a manner completely removed from any human, or ecological, standards. Ironic when you consider that people often describe the things most important to them as “priceless.”

I believe that if we are to create an ideal market economy, the technocratic approach must be abandoned. It’s a problem of context. The consolidation and centralization of executive information has removed money from the context in which it is used. By insulating economic decision makers from the consequences of their actions, money as a communications technology has become a disinformation medium. In order to design an exchange technology that is compatible with the market ideal, money should be managed with a consideration for its context.

It is time to resurrect the money question. The technocratic argument maintains that decisions on who may issue, manage, and use money, should be left in the hands of specialists; bureaucratic experts trained in these issues. But with the decentralization of formulative information, this argument becomes far less convincing. Due to modern developments in other communications technologies, today we have an unprecedented opportunity for well-informed democratic participation. Decentralizing control of our

exchange technology (executive information) is a necessary prerequisite.

In the next two chapters we will look at ways to re-inform money into a healthier economic medium, and a possible starting point for creating a new decentralized monetary system.