Banking, Nation States, and International Politics: A Sociological Reconstruction of the Present Economic Order

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Money and Banking

In order to explain the emergence of barter nothing more than the assumption of a narrowly defined self-interest is required. If and insofar as man prefers more choices and goods to fewer, he will choose barter and division of labor over self-sufficiency.

The emergence of money from barter follows from the same narrow self-interest. If and insofar as man is integrated in a barter economy and prefers a higher to a lower standard of living, he will choose to select and support a common media of exchange. In selecting a money he can overcome the fundamental restriction imposed on exchange by a barter economy, i.e., that of requiring the existence of a double coincidence of wants. With money his possibilities for exchange widen. Every good becomes exchangeable for every other, independent of double coincidences or imperfect divisibilities. And with this widened exchangeability the value of each and every good in his possession increases.

Since man is integrated in an exchange economy, self-interest compels him to look out for particularly marketable goods which have desirable money properties such as divisibility, durability, recognizability, portability and scarcity, and to demand such goods not for their own sake but for the sake of employing them as mediums of exchange. And it is in his self-interest to choose that commodity as his medium of exchange that is also used as such most commonly by

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others. In fact, it is the function of money to facilitate exchange, t widen the range of exchange possibilities, and to thereby increase th value of one's goods (insofar as they are perceived as integrated in a exchange economy). Thus, the more widely a commodity is used a money, the better it will perform its monetary function. Driven by n more than narrow self-interest, man will always prefer a more gen eral and, if possible, a universal medium of exchange to a less genera or non-universal one. For the more common the money, the wider th market in which one is integrated, the more rational one's value an cost calculations (from the viewpoint of someone desiring economi integration and wealth maximization), and the greater the benefit that one can reap from division of labor.[1]

Empirically, of course, the commodity that was once chosen as th best-because-most-universal-money is gold. Without government co ercion gold would again be selected for the foreseeable future as th commodity best performing the function of money. Self-interest woul lead everyone to prefer gold—as a universally used medium of ex change—to any other money. To the extent that every individua perceives himself and his possessions as integrated into an exchang economy, he would prefer accounting in terms of gold rather than i terms of any other money, because gold's universal acceptance make such accounting the most complete expression of one's opportunit costs, and hence serves as the best guide in one's attempts to maxi mize wealth. All other monies would be driven out of use quickl because anything less than a strictly universal and internationa money such as gold—national or regional monies, that is—woul contradict the very purpose of having money in the first place. Mone has been invented by self-interested man in order to increase hi wealth by integrating himself into an ever-widening and ultimatel universal market. In the way of the pursuit of self-interest, nationa or regional monies would quickly be out-competed and supplanted b gold, because only gold makes economic integration complete an markets world-wide, thereby fulfilling the ultimate function of mone as a common medium of exchange.[2]

The emergence of money, of increasingly better monies, and finall of one universal money, gold, sets productive energies free tha previously remained frustrated and idle due to double-coincidence

[1]On the free-market development of money, see Carl Menger, *Principles of Econon ics.* (New York: New York University Press, 1976), pp. 257-85; "Geld" in Carl Menge *Gesammelte Werke*, vol. 4 (Tübingen: Mohr, 1970).

[2]On the gold standard, see *The Gold Standard, An Austrian Perspective*, Llewelly H. Rockwell, Jr., ed. (Lexington, Mass.: D. C. Heath, 1985); and Ron Paul and Lew Lehrman, *The Case for Gold* (San Francisco: Cato Institute, 1983).

of-wants-restrictions in the process of exchanges (such as the existence of competing monies with freely fluctuating exchange rates). Under barter the market for a producer's output is restricted to instances of double want coincidences. With all prices expressed in terms of gold the producer's market is all-encompassing, and demand takes effect unrestricted by any absence of double coincidences on a world-wide scale. Accordingly, production increases—and increases more with gold than with any other money. With increased production the value of money in turn rises; and the higher purchasing power of money reduces one's reservation demand for it, lowers one's effective rate of time preference (the originary rate of interest), and leads to increased capital formation. An upward spiraling process of economic development is set in motion.

This development creates the basis for the emergence of banks as specialized money-handling institutions. On the one hand, banks come forward to meet the increasing demand for the safekeeping, transporting, and clearing of money. On the other hand, they fulfill the increasingly important function of facilitating exchanges between capitalists (savers) and entrepreneurs (investors), actually making an almost complete division of labor between these roles possible. As institutions of deposit and in particular as savings and credit institutions, banks quickly assume the rank of nerve centers of an economy. Increasingly the spatial and temporal allocation and coordination of economic resources and activities takes place through the mediation of banks; and in facilitating such coordination the emergence of banks implies still another stimulus for economic growth.[3]

While it is in everyone's economic interest that there be only one universal money and only one unit of account, and man in his pursuit of wealth maximization will not stop until this goal is reached, it is contrary to such interest that there be only one bank or one monopolistic banking system. Rather, self-interest commands that every bank use the same universal money—gold—and that there then be no competition between different monies, but that free competition between banks and banking systems, all of which use gold, must exist. Only so long as free entry into banking exists will there be cost efficiency in this as in any other business; yet only as long as this competition concerns services rendered in terms of one and the same money commodity will free banking actually be able to fulfill the very function of money and banking, i.e., of facilitating economic integration

[3]On banking and in particular the different functions of loan and deposit banking, see Murray N. Rothbard, *The Mystery of Banking* (New York: Richardson and Snyder, 1983).

rather than disintegration, of widening the market and expanding the division of labor rather than restricting them, of making value and cost accounting more rather than less rational, and hence of increasing rather than decreasing economic wealth. The notion of competition between monies is a *contradictio in adjecto*. Strictly speaking, a monetary system with rival monies of freely fluctuating exchange rates is still a system of (partial) barter, riddled with the problem of requiring double coincidences of wants in order for (some) exchanges to take place. The existence of such a system is dysfunctional of the very purpose of money.[4] Freely pursuing his own self-interest, man would immediately abandon it—and it would be a fundamental misconception regarding the essence of money to think of the free market not only in terms of competing banks but also in terms of competitive monies.[5] Competitive monies are not the outcome of free market actions but are invariably the result of coercion, of government imposed-obstacles placed in the path of rational economic conduct.

With free banking based on a universal gold standard emerging, the goal of achieving the most cost efficient solution to coordinating and facilitating interspatial and intertemporal exchanges within the framework of a universally integrated market is accomplished. Prices for the service of safekeeping, transporting and clearing money, as well as for advancing money in time-contracts would drop to their lowest possible levels under a regime of free entry. And since these prices would be expressed in terms of one universal money, they would truly reflect the minimum costs of providing market-*integrative* services.

Moreover, bank competition combined with the fact that money must emerge as a commodity—such as gold—which in addition to its value as money has a commodity value and thus cannot be produced without significant cost-expenditure, also provides the best possible safeguard against fraudulent banking.

As money depositing institutions, banks—much like other institutions depositing fungible commodities yet more so in the case of banks because of the special role of the commodity money—are tempted to issue "fake" warehouse receipts, i.e., notes of deposit not covered by real money, as soon as such banknotes have assumed the role of money substitutes and are treated by market participants as unquestionable equivalents of actually deposited real money. In this situation, by

[4]See Murray N. Rothbard, *The Case for a 100 Percent Gold Dollar* (Meriden, Conn.: Cobden Press, 1984), pp. 32-34.

[5]A highly prominent example for this misconception is Friedrich A. Hayek, *Denationalization of Money* (London: Institute of Economic Affairs, 1976); for a critique see Murray N. Rothbard, "Hayek's Denationalized Money," *Libertarian Forum* 15, nos. 5-6 (August 1981 and January 1982).

issuing fake or fiat banknotes that physically cannot be distinguished from genuine money substitutes, a bank can—fraudulently and at another's expense—increase its own wealth. It can directly purchase goods with such fake notes and thus enrich itself in the same way as any simple counterfeiter does. The bank's real wealth and the wealth of the early recipients of the money increases through these purchases, and at the same time and by the same action the wealth of those receiving the new money late or not at all decreases, due to the inflationary consequences of counterfeiting. Or a bank can use such fiat money to expand its credit and earn interest on it. Once again a fraudulent income and wealth redistribution in the bank's favor takes place.[6] Yet in addition, this time a boom-bust cycle is also set in motion: placed at a lowered interest rate, the newly granted credit causes increased investments and initially creates a boom that cannot be distinguished from an economic expansion; however, this boom must turn bust because the credit that stimulated it does not represent real savings but instead was created out of thin air. Hence, with the entire new and expanded investment structure under way, a lack of capital must arise that makes the successful completion of all investment projects systematically impossible and instead requires a contraction with a liquidation of previous malinvestments.[7]

Under the gold standard any bank or banking system (including a monopolistic one) would be constrained in its own inclination to succumb to such temptations by two requirements essential for successful counterfeiting. On the one hand, the banking public must not be suspicious of the trustworthiness of the bank—that is, its anti-fraud vigilance must be low—for otherwise a bank run would quickly reveal the committed fraud. And, on the other hand, the bank cannot inflate its notes at such a pace that the public loses confidence in the notes' purchasing power, reduces its reservation demand for them and flees instead towards "real" values, including real money, and thereby drives the counterfeiter into bankruptcy. Under a system of free banking, however, with no legal tender laws and gold as money, an additional constraint on potential bank fraud arises. For then

[6]On the counterfeiting process, see Rothbard, *The Mystery of Banking*, chap. 4; also Elgin Groseclose, *Money: The Human Conflict* (Norman: University of Oklahoma Press, 1934), pp. 178 and 273.

[7]On the Austrian business cycle theory, see Ludwig von Mises, *Theory of Money and Credit* (Irvington, N.Y.: Foundation for Economic Education, 1971); Mises, *Human Action*, chap. 20 (Chicago: Henry Regnery, 1966); Friedrich A. Hayek, *Monetary Theory and the Trade Cycle* (New York: Augustus M. Kelley, 1975); Hayek, *Prices and Production* (New York: Augustus M. Kelley, 1967); Richard v. Strigl, *Kapital und Produktion* (Wien: J. Springer Verlag, 1934); Murray N. Rothbard, *Man, Economy and State*, vol. 2, chap. 12 (Los Angeles: Nash, 1970), pp. 832-49.

every bank is faced with the existence of non-clients or clients of different banks. If in this situation additional counterfeit money is brought into circulation by a bank, it must invariably reckon with the fact that the money may end up in non-clients' hands who demand immediate redemption, which the bank then would be unable to grant without at least a painful credit contraction. In fact, such a corrective contraction could only be avoided if the additional fiat money were to go exclusively into the cash reserves of the bank's own clients and were used by them exclusively for transactions with other clients. Yet since a bank would have no way of knowing whether or not such a specific outcome could be achieved, or how to achieve it, the threat of a following credit contraction would act as an inescapable economic deterrent to any bank fraud.[8]

The State and the Monopolization of Money and Banking

The present economic order is characterized by national monies instead of one universal money; by fiat money instead of a commodity such as gold; by monopolistic central banking instead of free banking; and by permanent bank fraud, and steadily repeated income and wealth redistribution, permanent inflation and recurring business cycles as its economic counterparts, rather than 100 percent reserve banking with none of these consequences.

In complete contradiction, then, to man's self-interest of maximizing wealth through economic integration, different anti-economic interests prevailing over economic ones must be responsible for the emergence of the contemporary monetary order.

One can acquire and increase wealth either through homesteading, production and contractual exchange, or by expropriating and exploiting homesteaders, producers, or contractual exchangers. There are no other ways. Both methods are natural to mankind. Alongside an interest in producing and contracting there has always been an interest in non-productive and non-contractual property and

[8]What about cartels? Could not the competing banks form a cartel and agree on a joint venture in counterfeiting? Again, under free banking this is most unlikely, because a system of free banking is characterized by the complete absence of any economic incentive for cartelization. With no restrictions of entry in existence, any such bank cartel would have to be classified as voluntary and would suffer from the same problems as any voluntary cartel. Faced with the threat of non-cartelists and/or new entrants, and recognizing that like all cartel agreements, a banking cartel would favor the less efficient cartel members at the expense of the more efficient ones, there is simply no economic basis for successful action, and any attempt to cartelize would quickly break down as economically inefficient. Moreover, insofar as the counterfeit money would be employed to expand credit, banks acting in concert would set off a full scale boom-bust cycle. This, too, would deter cartelization. See on the theory of free banking, Mises, *Human Action*, pp. 434-48 Rothbard, *The Mystery of Banking*, chap. 8.

wealth acquisitions. And in the course of economic development, just as the former interest can lead to the formation of productive enterprises, firms and corporations, so can the latter lead to large-scale enterprises and bring about governments or states.[9]

The size and growth of a productive enterprise is constrained on one hand by voluntary consumer demand, and on the other by the competition of other producers that continuously forces each firm to operate with the lowest possible costs if it wishes to stay in business. For such an enterprise to grow in size, the most urgent consumer wants must be served in the most efficient ways. Nothing but voluntary consumer purchases support its size.

The constraints on the other type of institution—the state—are altogether different.[10] For one thing, it is obviously absurd to say that its emergence and growth is determined by demand in the same sense as an economic firm. One cannot say by any stretch of the imagination that the homesteaders, the producers and the contractual exchangers who must surrender (part of) their assets to a state have demanded such a service. Instead, they are coerced into accepting it, and this is

[9]Contrary to the claim of the public choice school, states and private firms are not doing essentially the same sort of business, but instead are engaged in categorically different types of operations. Both types of institutions are the outcome of different, antagonistic interests. The "political" interest in exploitation and expropriation underlying the formation of states obviously requires and presupposes the existence of wealth, and hence an "economic" interest of at least one person in producing such wealth in the first place (while the reverse is not true). But at the same time the more pronounced and successful political interests are the more destructive of economic interests this will be. The public choice school is perfectly correct in pointing out that everyone—a government employee no less than an employee of an economic firm—normally prefers a higher to a lower income and that this interest explains why government should be expected to have no less of a tendency to grow than any other enterprise. However, this discovery—that politicians and bureaucrats are no more altruistic or concerned about the "public good" than are people in other walks of life—is hardly new even if it has sometimes been overlooked. Yet what *is* in fact new with public choice—the inference drawn from this correct insight then, that all institutions should hence be regarded as an outgrowth of identical motivational forces and be treated analytically on a par with each other—is false. Regardless of a person's subjective beliefs, integrating one's actions into the institutional framework of either the state or a "normal" economic enterprise and pursuing one's wealth maximizing interests here or there will in fact produce categorically different outcomes. On a representative statement of the public choice school regarding the idea of the "state as a firm," and of "political exchange" as essentially the same as "economic exchange," see James Buchanan and Gordon Tullock, *The Calculus of Consent* (Ann Arbor: University of Michigan Press, 1965), p. 19; for a critique of this view and the fundamental difference between economic and political means, see Franz Oppenheimer, *The State* (New York: Vanguard Press, 1914), pp. 24-27; Murray N. Rothbard, *Power and Market* (Kansas City, Kans.: Sheed Andrews and McMeel, 1977), chap. 2.

[10]On the following theory of the state, see Murray N. Rothbard, *For a New Liberty* (New York: Macmillan, 1978); Rothbard, *The Ethics of Liberty* (Atlantic Highlands, N.J.: Humanities Press, 1982); Hans-Hermann Hoppe, *Eigentum, Anarchie und Staat* (Opladen: Westdeutscher Verlag, 1987); Hoppe, *Theory of Socialism and Capitalism* (Boston: Kluwer Academic Publishers, 1988); Anthony de Jasay, *The State* (Oxford: Basil Blackwell, 1985).

conclusive proof of the fact that the service is not at all in demand. On the other hand, the state is also not constrained in the same way by competition as is a productive firm. For unlike such a firm, the state must not keep its costs of operation at a minimum, but can operate at above-minimum costs, because it is able to shift its higher costs onto its competitors by taxing or regulating their behavior. Thus as a state emerges, then, it does so *in spite* of the fact that it is neither in demand nor efficient.

Instead of being constrained by cost and demand conditions, the growth of an exploiting firm is constrained by public opinion: non-productive and non-contractual property acquisitions require coercion, and coercion creates victims. It is conceivable that resistance can be lastingly broken by force in the case of one man (or a group of men) exploiting one or maybe two or three others (or a group of roughly the same size). It is inconceivable, however, to imagine that force alone can account for the breaking down of resistance in the actually familiar case of small minorities expropriating and exploiting populations ten, hundreds, or thousands of times their size. For this to happen a firm must have public support in addition to coercive force. A majority of the population must accept its operations as legitimate. This acceptance can range from active enthusiasm to passive resignation. But acceptance it must be in the sense that a majority must have given up the idea of actively or passively resisting any attempt to enforce non-productive and non-contractual property acquisitions. Instead of displaying outrage over such actions, of showing contempt for everyone who engages in them, and of doing nothing to help make them successful (not to mention actively trying to obstruct them), a majority must actively or passively support them. State-supportive public opinion must counterbalance the resistance of victimized property owners such that active resistance appears futile. And the goal of the state, then, and of every state employee who wants to contribute toward securing and improving his own position within the state, is and must be that of maximizing exploitatively acquired wealth and income by producing favorable public opinion and creating legitimacy.

There are two complementary measures available to the state trying to accomplish this. First, there is ideological propaganda. Much time and effort is spent persuading the public that things are not really as they appear: exploitation is really freedom; taxes are really voluntary; non-contractual relations are really "conceptually" contractual ones;[11]

[11]On the semantic confusion spread through the term "conceptual agreement" in particular by James Buchanan, see Hans-Hermann Hoppe, "The Fallacies of the Public Goods Theory and the Production of Security," *Journal of Libertarian Studies* 9, no. 1 (Winter 1989): 27-46.

no one is ruled by anyone but we all rule ourselves; without the state neither law nor security exists; and the poor would perish, etc.

Second, there is redistribution. Instead of being a mere parasitic consumer of goods that others have produced, the state redistributes some of its coercively appropriated wealth to people outside the state apparatus and thereby attempts to corrupt them into assuming state-supportive roles.

But not just any redistribution will do. Just as ideologies must serve a—statist—purpose, so must redistribution. Redistribution requires cost-expenditures and thus needs a justification. It is not undertaken by the state simply in order to do something nice for some people, as, for instance, when someone gives someone else a present. Nor is it done simply to gain as high an income as possible from exchanges, as when an ordinary economic business engages in trade. It is undertaken in order to secure the further existence and expansion of exploitation and expropriation. Redistribution must serve this strategic purpose. Its costs must be justified in terms of increased state income and wealth. The political entrepreneurs in charge of the state apparatus can err in this task, as can ordinary businessmen, because their decisions about which redistributive measures best serve this purpose have to be made in anticipation of their actual results. And if entrepreneurial errors occur, the state's income may actually fall rather than rise, possibly even jeopardizing its own existence. It is the very purpose of state politics and the function of political entrepreneurship to avoid such situations and to choose instead a policy that increases state income.

While neither the particular forms of redistributive policies nor their particular outcomes can be predicted, but change with changing circumstances, the nature of the state still requires that its redistributive policy must follow a certain order and display a certain structural regularity.[12]

As a firm engaged in the maximization of exploitatively appropriated wealth, the state's first and foremost area in which it applies redistributive measures is the production of security, i.e. of police, defense, and a judicial system. The state ultimately rests on coercion and thus cannot do without armed forces. Any competing armed forces—which would naturally emerge on the market in order to satisfy a genuine demand for security and protection services are a threat to its existence. They must be eliminated. To do this is to arrogate the job to itself and become the monopolistic supplier and

[12]See Hoppe, *Eigentum, Anarchie und Staat*, chap. 5.3; Hoppe, *Theory of Socialism and Capitalism*, chap. 8.

redistributor of protection services for a defined territory. Similarly, a competing judicial system would pose an immediate threat to a state's claim to legitimacy. And again, for the sake of its own existence the judicial system must also be monopolized and legal services included in redistributive schemes.

The state's nature as an institution engaged in organized aggression also explains the importance of the next field of redistributive activities: that of traffic and communication. There can be no regular exploitation without monopolistic control of rivers, coasts, seaways, streets, railroads, airports, mail and telecommunication systems. Thus, these areas, too, must become the object of redistribution.

Of similar importance is the field of education. Depending as it does on public opinion and its acceptance of the state's actions as legitimate, it is essential for a state that unfavorable ideological competition be eliminated as far as possible and statist ideologies spread. The state attempts to accomplish this by providing educational services on a redistributive basis.

Furthered by a system of state education, the next crucial area for redistribution is that of redistributing state power itself, i.e., the right assumed by the state to expropriate, exploit and redistribute non-productively appropriated assets. Instead of remaining an institution which restricts entry into itself and/or particular government positions, a state increasingly, and for obvious strategic reasons, adopts an organizational structure which in principle opens up every position to everyone and grants equal and universal rights of participation and competition in the determination of state policy. Everyone—not just a privileged "nobility"—receives a legal stake in the state in order to reduce the resistance to state power.[13]

With the monopolization of law and security production, traffic, communication and education, as well as the democratization of state rule itself, all features of the modern state have been identified but one: the state's monopolization of money and banking. For all but this one it has been explained—albeit briefly—how they can and must be understood as performing strategic functions: why and how they are not normal productive contributions determined by demand and supply forces or simply good deeds, but redistributive activities which serve the purpose of stabilizing and, if possible, increasing a state's exploitatively appropriated income and wealth.

The monopolization of money and banking is the ultimate pillar on which the modern state rests. In fact, it has probably become the most cherished instrument for increasing state income. For nowhere

[13]On democratization as a means of expanding state power, see Bertrand de Jouvenel, *On Power* (New York: Viking Press, 1949), pp. 9-10.

else can the state make the connection between redistribution-expenditure and exploitation-return more directly, quickly and securely than by monopolizing money and banking. And nowhere else are the state's schemes less clearly understood than here.

Preferring—like everyone—a higher to a lower income, yet—unlike others—being in the business of non-productive and non-contractual property acquisitions, the state's position regarding money and banking is obvious: its objectives are served best by a pure fiat money monopolistically controlled by the state. For only then are all barriers to counterfeiting removed (short of an entire breakdown of the monetary system through hyperinflation) and the state can increase its own income and wealth at another's expense practically without cost and without having to fear bankruptcy.[14]

However, there are obstacles in the way of attaining this enviable state of affairs. On the one hand, there is the inexorable fact that money can emerge only as a commodity. It is impossible to start out with fiat money.[15] On the other hand, there is the problem that while enrichment through counterfeiting is no doubt less conspicuous than doing so by means of taxation, it is nonetheless a measure that is bound to be noticed, certainly by the banks, particularly if it occurs on a regular basis. And so it is also impossible for the state to get away with institutionalized counterfeiting unless it can be combined with redistributive measures which are capable of bringing about another favorable change in public opinion.

This problem and the state's natural desire essentially determine the course of its actions.

As the result of free market processes, the state finds gold established as money and a system of free banking. Its goal is the destruction of this system and with it the removal of all obstacles to counterfeiting. Technically (ignoring for the moment all psychological difficulties involved in this), the sequence of steps that must be taken in order to accomplish this objective is then dictated. In a first step the minting of gold must be monopolized by the state. This serves the purpose of psychologically deinternationalizing gold by shifting the emphasis from gold as denominated in universal terms of weight to gold as denominated in terms of fiat labels. And it removes a first important obstacle toward counterfeiting because it gives the state

[14]On the state's inherent tendency toward achieving an unrestricted counterfeiting monopoly, see Rothbard, *The Mystery of Banking*; Murray N. Rothbard, *What Has Government Done to Our Money* (San Rafael, Calif.: Libertarian Publishers, 1985).

[15]On the impossibility of money originating as a fiat paper money, see the regression theorem: Mises, *Theory of Money and Credit*, pp. 97-123; Mises, *Human Action*, pp. 408-10; Rothbard, *Man, Economy and State*, vol. 1, pp. 231-37.

the very institutional means of enriching itself through a systematic process of currency debasement.

Second, the use of money substitutes instead of actual gold must be systematically encouraged and such a tendency backed up by the enactment of legal tender laws. The counterfeiting process thereby becomes much less costly. Instead of having to remint gold, only paper tickets must be printed.

However, the problem already discussed earlier remains, that as long as a system of free banking is in operation the counterfeit notes cannot be prevented from returning to the note issuer with the request for redemption, and that he then cannot—at least not without a contractive adjustment—fulfill his obligations. To overcome this obstacle, in the next step the state must monopolize the banking system or force the competing banks into a cartel under the tutelage of its own state-operated central bank. Once it is in command of a monopolized or cartelized banking system, the state can put the coordinated and joint counterfeiting process of the entire banking system into effect that avoids this risk.

In the next step gold must be nationalized, i.e., the state must require all banks to deposit their gold at the central bank and conduct their business exclusively with money substitutes instead of gold. This way gold disappears from the market as an actually used medium of exchange and instead everyday transactions become increasingly characterized by the use of central bank notes.

Finally, gold being already out of sight and in the state's sole possession, the state must cut the last tie to gold by reneging on its contractual obligations and declaring its notes irredeemable. Built on the ruins of gold, which as a commodity money standard initially made it possible that paper notes could actually acquire any purchasing power, a pure fiat money standard has been erected and can now be kept in operation, at long last handing the state the unlimited counterfeiting power that it had been vying for.

The goal of a complete counterfeiting autonomy likewise dictates the strategy that must be pursued on the psychological front. Obviously, in approaching its ultimate goal the state creates victims and thus it is also in need of favorable public opinion. Its rise to absolute counterfeiting power must be accompanied by redistributive measures that generate the support necessary to overcome all upcoming forces of resistance. It must look for allies.

Regarding the state's monopolization of law and order, traffic, communication and education, and the democratization of its organizational structure—while it is clear that they are all redistributive measures and as such imply favoring one person at the expense of

another—it is difficult if not impossible to identify the gainers and the losers with definite social classes: there can be gainers (or losers) across different classes; within one social class there can be gainers and losers; and the pattern of redistribution can shift over time. In all of these cases the link between the state's redistributive expenditures and their payoffs is only indirect; whether or not certain education expenditures, for instance, pay off in terms of increased state income will only become visible at a later date; and even then it will be difficult to attribute such an outcome to a definite cause. In the case of the monopolization of money and banking, on the other hand, who outside the apparatus of the state itself will be the benefactors of its redistributive policies and who the losers is clear at once; and sociologically the benefactors can easily be identified with a specific social class. In this case the connection between the state's handing out redistributive favors and its own enrichment is direct and close-circuited; and the attribution of causes obvious: the state is compelled to make banks and the social class of bankers its accomplices by allowing them to participate in its counterfeiting operations and so enrich themselves along with the state's own enrichment.

Bankers would be the first ones to become aware of the state's attempts at counterfeiting. Without special incentives to the contrary they would have no reason to support such actions and every reason to uncover and stop them as quickly as possible. And the state would not run into just any opposition here: bankers, because of their exalted position in economic life and in particular because of their far-reaching interconnectedness as a professional group resulting from the nature of their business as facilitators of interspatial and intertemporal exchanges, would be the most formidable opposition one might encounter. The incentive necessary to turn such potential enemies into natural allies is the state's offer to cut them in on its own fraudulent machinations. Familiar with the ideas of counterfeiting and its great potential for one's own enrichment, but knowing, too, that there is no chance of engaging in it without running the immediate risk of bankruptcy under free, competitive banking and a gold standard, bankers are faced with an almost irresistible temptation. Going along with the state's policy of monopolizing money and banking also means fulfilling one's own dreams of getting rich fast. Not only the state comes into its own once a pure fiat money standard is established. Provided that they are accorded the privilege by the state to counterfeit in addition to its own counterfeited notes under a monetary regime of less than 100 percent reserve banking, with the central bank functioning as a last resort counterfeiter, banks can only

too easily be persuaded to regard the establishment of such a monetary system as their ultimate goal and as a universal panacea.[16]

Economically, this coalition between the state—as the dominant partner—and the banking system—as its affiliate—leads to permanent inflation (constrained only by the imperative of not overdoing it and causing a breakdown of the entire monetary system), to credit expansion and steadily recurring boom-bust cycles, and to a smooth uninterrupted income and wealth redistribution in the state's and the banks' favor.

Still more important, however, are the sociological implications of this alliance: with its formation a ruling class whose interests are tied in closely with those of the state is established within civil society. Through its cooperation the state can now extend its coercive power to practically every area of society.

Before the establishment of the state-banking alliance, the sociological separation between state and society, i.e., between an exploitative ruling class and a class of exploited producers, is almost complete and clearly visible. Here is a civil society that produces all economic wealth; and there is the state and its representatives who draw parasitically on what others have produced. People are members either of civil society or the state and see their own interests connected with either the former or the latter. To be sure, there are then redistributive activities going on which favor parts of society at the expense of others and which help divert interests from the pursuit of economic integration to that of supporting exploitation. Yet social corruption is unsystematic at this stage. It is not corruption of social classes which are connected society-wide, but rather corruption of various disparate and dispersed individuals or groups. And these interests are only connected to those of the state rather tenuously through certain specific redistributive state activities, rather than through a direct "cash-connection."

With the formation of a state-banking alliance all this becomes different. A cash-connection between parts of civil society and the state exists—and nothing ties people more closely together than joint financial interests. Moreover, this connection is established between the state and what can be identified not only as a closely interconnected social class, but as one of the most widely influential and powerful ones. In fact, it is not just the banks who join interests with the state and its policy of exploitation. The banks' major clients, the business establishment and the leaders of industry become deeply integrated in the state's counterfeiting schemes, too. For it is they

[16] On the enthusiastic participation of the banking elite in the creation of the Federal Reserve System, see Rothbard, *Mystery of Banking*, chaps. 15 and 16.

who—apart from state and banks—are the earliest receivers of most of the regularly created counterfeit money. In receiving the counterfeit money before it gradually ripples through the economic system and thereby changes relative prices as well as increases the overall price level, and in receiving credit at fraudulently lowered interest rates, they, too, enrich themselves at the expense of all savers and all later recipients or non-recipients of this money.[17]

Moreover, this financial coalition between the industrial establishment, banks, and the state tends to be reinforced by each successive course of events. The credit expansion leads to increased investment and—since it is not covered by an increase in genuine savings—will inevitably result in a corrective contraction. In order to avoid losses or even bankruptcy the banks' clients will approach the banking system with an increased demand for liquidity (i.e., money). Naturally, to avoid losses the banks are eager to help their clients—and the more established the client the more eager. Unable to do this on their own, they turn to the state and its central bank. And the state, then, being offered another chance at its own enrichment, accepts and provides the banking system, and by extension the business establishment, with the needed liquidity by means of a new round of counterfeiting. The alliance is renewed, and the state has reaffirmed its dominant role by having saved the established banking and industrial elite from crumbling in the face of economic competition and allowing them instead to preserve the status quo or even further increase the wealth already concentrated in their hands. There is reason to be thankful and to reciprocate with invigorated public support for the state and its propaganda.

To be sure, this coalition between the state and the economic power elite by no means implies a complete identity of interests. The various established industrial enterprises may have different or even contrary interests; and the same is true for the banks. Similarly, the interests of banks and business clients may in many respects be different. Nor do interests of the industrial elite or the banks coincide completely with those of the state. For after all, banks as well as industrial enterprises are also in the "normal" business of making money through production and productive exchanges—whatever other sources of income acquisition may be available to them. And in this function their interests may well clash with the state's desire for

[17]On the formation of the state-banking-business coalition, see Gabriel Kolko, *The Triumph of Conservatism* (Chicago: Free Press, 1967); Kolko, *Railroads and Regulations* (Princeton: Princeton University Press, 1965); James Weinstein, *The Corporate Ideal in the Liberal State* (Boston: Beacon Press, 1968); Ronald Radosh and Murray N. Rothbard, eds., *A New History of Leviathan* (New York: Dutton, 1972).

taxes, for instance. Nonetheless, the establishment of a system of monopolized money and banking still creates one interest common to all of them: an interest in the preservation of the state apparatus and the institution of political (i.e., exploitative) means of income appropriation as such. Not only could the state and its central bank destroy any commercial bank and, indirectly, practically any industrial enterprise; this threat is more severe the more established a business is. The state could also help any and all of them get richer, and more so if they are already rich. Hence, the more there is to lose from opposition and to gain from compliance, the more intensive will be the attempts by the economic power elite to infiltrate the state apparatus and have the state leaders assume financial interests in the business world. Bankers and industrialists become politicians; and politicians take positions in banking and industry. A social system emerges and is increasingly characteristic of the modern world in which the state and a closely associated class of banking and business leaders exploit everyone else.[18,19]

[18]In the Marxist tradition this stage of social development is termed "monopoly capitalism," "finance capitalism" or "state monopoly capitalism." The descriptive part of Marxist analyses is generally valuable. In unearthing the close personal and financial links between state and business, they usually paint a much more realistic picture of the present economic order than do the mostly starry-eyed "bourgeois" economists. Analytically, however, they get almost everything wrong and turn the truth upside down.

The traditional, correct pre-Marxist view on exploitation was that of radical laissez-faire liberalism as espoused by, for instance, Charles Comte and Charles Dunoyer. According to them, antagonistic interests do not exist between capitalists, as owners of factors of production, and laborers, but between, on the one hand, the producers in society, i.e., homesteaders, producers and contractors, including businessmen *as well as* workers, and on the other hand, those who acquire wealth non-productively and/or non-contractually, i.e., the state and state-privileged groups, such as feudal landlords. This distinction was first confused by Saint-Simon, who had at some time been influenced by Comte and Dunoyer, and who classified market businessmen along with feudal lords and other state-privileged groups as exploiters. Marx took up this confusion from Saint-Simon and compounded it by making only capitalists exploiters and all workers exploited, justifying this view through a Ricardian labor theory of value and his theory of surplus value. Essentially, this view on exploitation has remained typical for Marxism to this day—despite Böhm-Bawerk's smashing refutation of Marx's exploitation theory and his explanation of the difference between factor prices and output prices through time preference (interest). To this day, whenever Marxist theorists talk about the exploitative character of monopoly capitalism, they see the root cause of this in the continued existence of the private ownership of the means of production. Even if they admit a certain degree of independence of the state apparatus from the class of monopoly capitalists (as in the version of "state monopoly capitalism"), for them it is not the state that makes capitalist exploitation possible; rather it is the fact that the state is an agency of capitalism, an organization that transforms the narrow-minded interests of individual capitalists into the interest of an ideal universal capitalist (the "ideelle Gesamtkapitalist"), which explains the existence of exploitation.

International Politics and International Monetary Order

Man's economic interests, i.e., his interests in improving his income and wealth by means of producing and exchanging, lead to the emergence of a universally used commodity money—gold—and a system of free banking.

Man's political interests, i.e., his interests in improving his income and wealth through exploitation—at the expense of producers and contractors—lead to the formation of states, the destruction of the gold standard, and the monopolization of money and banking.

Yet once a state is established as a monopolist of exploitation and counterfeiting new problems emerge. For even if its monopolistic

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In fact, as explained, the truth is precisely the opposite: It is the state that by its very nature is an exploitative organization, and capitalists can engage in exploitation only insofar as they stop being capitalists and instead join forces with the state. Rather than speaking of state monopoly capitalism, then, it would be more appropriate to call the present system "state financed monopoly socialism," or "bourgeois socialism."

For representative Marxist studies, see Rudolf Hilferding, *Finance Capital* (London: Routledge and Kegan Paul, 1981); V. I. Lenin, *Imperialism: Last Stage of Capitalism* (Moscow: Foreign Languages Publishing House, 1947); Paul M. Sweezy, *The Theory of Capitalist Development* (New York: Monthly Review Press, 1942); P. A. Baran and Paul M. Sweezy, *Monopoly Capital* (New York: Monthly Review Press, 1966); E. Mandel, *Marxist Economic Theory* (London: Merlin, 1962); Mandel, *Late Capitalism* (London: New Left Books, 1975); H. Meissner, ed. *Buergerliche Ökonomie ohne Perspektive* ([East] Berlin: Dietz, 1976). On the perversion of the classical liberal class analysis through Marxism, see Murray N. Rothbard, "Left and Right" in *Egalitarianism As a Revolt Against Nature and Other Essays* (Washington, D.C.: Libertarian Review Press, 1974); on the refutation of the Marxist theory of exploitation, see Eugen von Böhm-Bawerk, *Karl Marx and the Close of His System*, Paul M. Sweezy, ed. (New York: Augustus M. Kelley, 1948).

[19]To recognize the far-reaching integration of state interests and those of the economic power elite, which is brought about by the monopolization of money and banking, is not to say that there cannot be conflicts arising within this coalition. As mentioned earlier, the state is also characterized, for instance, by the necessity of democratizing its constitution. And the democratic process could well bring egalitarian or populist sentiments to the surface which were opposed to the state's favorable treatment of banks and big business. However, it is precisely the financial nature of the state-business connection that makes such an occurrence unlikely. For not only would this pose an immediate threat to the economic power elite; it would also imply severe financial losses in state income, even if it did not threaten the stability of the state as such. Hence a powerful incentive exists for both sides to join forces in filtering any such sentiment out of the political process before it ever becomes widely heard and to ensure with all resources at their command that the range of political alternatives admitted to public discussion is so restricted as to systematically exclude any scrutinizing of their joint counterfeiting racket.

See on this also such—in spite of their characteristic leftist misconceptions—informative studies as C. W. Mills, *The Power Elite* (New York: 1965); W. Domhoff, *Who Rules America?* (New York: 1967); E. Schattschneider, *The Semi-Sovereign People* (New York: 1960); Bachrach and Baratz, *Power and Poverty* (New York: 1970); C. Offe, *Strukturprobleme des kapitalistischen Staates* (Frankfurt am Main: Suhrkamp, 1972).

position is secured within a given territory, competition between states operating in different territories still exists. It is this competition which imposes severe limits on any one government's exploitative powers. In one instance, it opens up the possibility that people will vote against a government with their feet and leave its territory if they perceive other territories as offering less exploitative living conditions. Or if other states are perceived as less oppressive, the likelihood increases of a state's subjects collaborating with such foreign competitors in their desire to "take over." Both of these possibilities pose a crucial problem for each state. For each literally lives off a population, and any population loss is thus a loss of potential state income. Similarly, any state's interest in another's internal affairs must be interpreted as a threat, in particular, if it is supported by the latter's own subjects, because in the business of exploitation one can only prosper as long as there is something that can be exploited and, obviously, any support given to another state would reduce what remains left over for itself.

In another instance, with several competing states each individual state's counterfeiting power becomes severely limited. In fact, on the international level a problem reemerges which is directly analogous to the obstacle to counterfeiting which was implied by a system of free banking, and which the states solved internally through the monopolization or cartelization of banking. The situation is characterized by different national paper monies with freely fluctuating exchange rates. If one state counterfeits more extensively than another, its currency is bound to depreciate in terms of the other, and for a state this means (whatever different things it may mean for its various subjects) that its income has declined in relation to that of another state. With this its power vis-à-vis that of another state is decreased. It becomes more vulnerable to a competing state's attacks (military or economic). Naturally, it is in no state's interest to see this happen, and thus one's counterfeiting desire must be restrained accordingly. Counterfeiting still continues permanently, of course, because it is in every state's own interest; but no state is truly autonomous in its decision about how much to inflate and instead must at all times pay close attention to the inflationary policies of its competitors and flexibly adjust its own actions to theirs.

In order to maximize its exploitatively acquired income, it is in a state's natural interest to overcome both of these external restrictions on internal power. Cartelization would seem a possible solution. However, it must fail as such because—due to the lack of a monopolistic enforcement agency—interstate cartels could only be voluntary and would hence appear less attractive to a state the more powerful

it already is and the less inflationary its counterfeiting policy. By joining any such cartel a state would harm itself to the advantage of less successful and more inflationary states. There is only one stable solution for the problem then: a state must aim to expand its territory, eliminate its competitors and, as its ultimate goal, establish itself as a world government. And parallel to this must be its attempts to make its paper currency used in wider territories and ultimately make it the world currency under the control of its own world central bank. Only if these goals are achieved will a state truly come into its own. There are many obstacles on this path, and these may prove so severe as to make it necessary to settle for less than such a perfect solution. However, as long as there is a state in existence, such an interest is operative and must be understood as such if one is to correctly interpret past developments as well as future tendencies (after all it took the states several centuries to reach their present internal counterfeiting powers).

The means for accomplishing the first of its two integrated goals is war. War and state are inextricably connected.[20] Not only is a state an exploitative firm and its leading representatives can thus have no principled objection to non-productive and non-contractual property acquisitions—otherwise they would not do what they do or the state would simply fall apart and dissolve. And it cannot be surprising then that they should also have no fundamental objection to a territorial expansion of exploitation by means of war. In fact, war is the logical prerequisite of a later cease-fire; and its own internal, institutionalized system of exploitation is nothing but a—legitimate—cease-fire, i.e., the result of previous conquests. In addition, as the representatives of the state they are also in command of the very means which make it increasingly likely that one's aggressive desires can actually be put into effect. In command of the instrument of taxation and, even better for this purpose, of absolute internal counterfeiting powers, the state can let others pay for its wars. And naturally, if one does not have to pay for one's risky ventures oneself but can force others to do so, or if one can simply create the needed funds out of thin air, one tends to be a greater risk-taker and more trigger happy than one would otherwise be.

While independent of demand and hence by nature a more aggressive institution than any normal business that would have to finance its wars with income gained exclusively through voluntary transactions

[20]On the intimate relationship between state and war, see the important study by E. Krippendorff, *Staat und Krieg* (Frankfurt am Main: Suhrkamp, 1985); also Charles Tilly, "War Making and State Making as Organized Crime," in P. Evans et al., *Bringing the State Back In* (Cambridge: Cambridge University Press, 1985); Robert Higgs, *Crisis and Leviathan* (New York: Oxford University Press, 1987).

and that would thus face immediate financial repercussions if only a single one of its clients reduced his purchases in response to his dissatisfaction with this business' war policy, the state is still not entirely free of all constraints in its pursuit of foreign aggression. Just as states emerge, although there is no demand for them, so wars occur without having been demanded. But as the emergence and the growth of states is constrained by public opinion, so also are the states' war endeavors. For obviously, in order to come out of an interstate war successfully, a state must be in command of sufficient—in relative terms—economic resources which alone make its actions sustainable. However, these resources can only be provided by a productive population. Thus, to secure the means necessary to win wars and to avoid being confronted with slackening productive outputs while at war, public opinion again turns out to be the decisive variable constraining a state's foreign policy. Only if popular support for the state's war exists can it be sustained and possibly won. The support from the banking and business establishment can be won easily, provided the foreign aggression promises a successful end and its cost can be established with a sufficient degree of accuracy. Not everyone of this class will be ready to join in, of course, because one may have vested interests in the to-be-conquered territory that will be damaged in the event of an interstate conflict; or one may wish that country *C* rather than *B* would be attacked; or one may even in principle be opposed to war. But generally, the expectation that along with one's own state's victory the business and banking elite would become established as a ruling class over a larger territory, with correspondingly expanded possibilities for financial exploitation, is a most powerful reason for the economic—in particular the banking—elite to pay close attention to the war option.

Yet their support is by no means sufficient. In wartime even more so than during peacetime a state is dependent on every single person's willingness to work and produce (there can no longer be any loafers during wartime). To ensure widespread enthusiasm, all states must help create and support nationalistic ideologies. They have to wrap themselves up as nation states and pose as the banner carriers and protectors of the superior values of one's own nation as distinct from those of others, in order to generate the public identification with one specific state. This necessary in order to then turn around and wipe out the independence of more and more distinct nations and separate ethnic, linguistic, and cultural groups.

However, something more substantial is required in order to keep the population working and producing the resources needed for a war: after all, the other states assumedly have the support of their business

elite; and they, too, have created a spirit of nationalism in their territories. Assuming further that the antagonistic states initially control populations of comparable size and territories with similar natural endowments, the decisive variable determining victory or defeat becomes the relative economic wealth of the societies involved; their relative degree of economic development and capital accumulation. Those states tend to be victorious in interstate warfare that can parasitically draw on superior economic wealth. Clearly though, in order to be in this position conditions relatively favorable to wealth and capital formation in their respective territories must previously have existed. States do not positively contribute to this. On the contrary, as institutions engaged in non-productive and non-contractual property acquisitions, their very existence is destructive of wealth and capital accumulation. However, they can make a negative contribution. Wealth and capital comes into existence only through homesteading, producing and contracting; and a relatively lower degree of exploitation of homesteaders, producers and contractors means a—relative—boost to capital formation which in the next round of exploitation can give the state the additional resources necessary to succeed militarily over its foreign competitors. Thus, what is also required in order to win wars is a relatively high degree of internal liberalism.

Paradoxical as it may first seem, the more liberal[21] a state is internally, the more likely it will engage in outward aggression. Internal liberalism makes a society richer; a richer society to extract from makes the state richer; and a richer state makes for more and more successful expansionist wars. And this tendency of richer states toward foreign intervention is still further strengthened, if they succeed in creating a "liberationist" nationalism among the public, i.e., the ideology that above all it is in the name and for the sake of the general public's own internal liberties and its own relatively higher standards of living that war must be waged or foreign expeditions undertaken.

In fact, something still more specific can be stated about internal liberalism as a requirement and means for successful imperialism. The need for a productive economy that a warring state must have also explains why it is that *ceteris paribus* those states tend to outstrip their competitors in the arena of international politics which have adjusted their internal redistributive policies so as to decrease the importance of economic regulations relative to that of taxation. Regulations through which states either compel or prohibit certain

[21]The term "liberal" is here and the in ollowing used in its traditional European sense and *not* in the present day U. S. sense as a synonym for "socialist" or "social-democratic!"

exchanges between two or more private persons as well as taxation imply a non-productive and/or non-contractual income expropriation and thus both damage homesteaders, producers, or contractors. However, while by no means less destructive of productive output than taxation, regulations have the peculiar characteristic of requiring the state's control over economic resources in order to become enforceable without simultaneously increasing the resources at its disposal. In practice, this is to say, they require the state's command over taxes, yet they produce no monetary income for the state (instead, they satisfy pure power lust, as when *A*, for no material gain of his own, prohibits *B* and *C* from engaging in mutually beneficial trade). On the other hand, taxation and a redistribution of tax revenue according to the principle "from Peter to Paul," increases the economic means at the government's disposal at least by its own "handling charge" for the act of redistribution. Since a policy of taxation, and taxation without regulation, yields a higher monetary return to the state (and with this more resources expendable on the war effort!) than a policy of regulation, and regulation with taxation, states must move in the direction of a comparatively deregulated economy and a comparatively pure tax-state in order to avoid international defeat.[22]

With the backdrop of these theoretical considerations about the nature of the state and international politics, much of history falls into place. Lasting over centuries, practically uninterrupted series of interstate wars vividly confirm what has been stated about the inherently aggressive nature of states. Similarly, history dramatically illustrates the tendency towards increased relative concentration of states as the outcome of such wars: states' aggressive expansionism has led to the closing of all frontiers, and a steady decline in the number of states along with an equally steady increase in the territorial size of those states that managed to survive. No world state has yet been brought about, but a tendency in this direction is undeniably present.

More specifically, history illuminates the central importance that internal liberalism has for imperial growth: first, the rise of the states of Western Europe to world prominence can be so explained. It is in Western Europe that, built on the older intellectual traditions of Greek and Stoic philosophy as well as Roman law, the ideology of natural rights and liberalism emerged.[23] It was here that—associated

[22]A highly characteristic example of this connection between a policy of internal deregulation and increased external aggressiveness is provided by the previous Reagan administration.

[23]On the following see also Hans-Hermann Hoppe, "The Economics and Sociology of Taxation," in *Taxation: An Austrian View*, Llewellyn H. Rockwell, Jr., ed. (Auburn, Ala.: The Ludwig von Mises Institute, forthcoming).

with names such as St. Thomas Aquinas, Luis de Molina, Francisco Suarez and the late sixteenth-century Spanish Scholastics, Hugo Grotius, Samuel Pufendorf and John Locke—it increasingly gained influence in public opinion; and where the various states' internal powers of exploitation were then correspondingly weakened. And their power was even further weakened by the fact that pre-modern Europe was characterized by a highly competitive, almost anarchic international system, with a multitude of rivaling small scale states and feudal principalities. It was in this situation that capitalism originated.[24] Because the states were weak, homesteaders, producers and contractors increasingly began to accumulate capital; previously unheard of economic growth rates were registered; for the first time a steadily increasing population could be sustained; and, in particular with the population growth leveling off, gradually but continuously the general standard of living began to rise, finally leading to what is called the Industrial Revolution. Drawing on this superior wealth of capitalist societies the weak, liberal states of Western Europe became the richest states on earth. And this superior wealth in their hands then led to an outburst of imperialist ventures which for the first time in history established the European states as genuine world powers, extending their hegemonic rule across all continents.

Similarly, England's outstanding role among the West European states can be explained. The most liberal country of all, the British government became the most successful imperialist.[25] And the relative decline of England (and Western Europe) and the rise of the United States to the world's foremost imperialist power fits the theoretical picture as well. With no feudal past to speak of and British imperialism defeated, liberalism was still more pronounced in the United States than anywhere in Europe. State power was at its weakest, hardly to be noticed in people's daily activities. Accordingly, economic growth was higher than in all other countries; standards of living went up; the population increased; and living standards and population size gradually surpassed those of all West European countries. At the same time, beginning in the late ninteenth century England and Western Europe suffered from reinvigorated internal statism brought about by the emergence of socialist ideologies. It was this superior economic wealth—produced by a little-exploited civil society—which allowed the internally weak United States government

[24]On the importance of "political anarchy" for the origin of capitalism, see J. Baechler, *The Origins of Capitalism* (New York: St. Martin's Press, 1976), chap. 7.

[25]On British imperialism, see L. E. Davis and R. A. Huttenback, *Mammon and the Pursuit of Empire: The Political Economy of British Imperialism 1860-1912* (Cambridge: Cambridge University Press, 1986).

apparatus to slowly become the richest, most resourceful state, and turn these resources toward foreign aggression and in time establish itself as the dominant world power, with "home bases" all around the globe and direct or indirect military dominance and hegemonic control over a large part of the world (with the exception of the Soviet Union and China and their respective satellites).[26] The nineteenth century already displayed aggressive expansionism of the—liberal—United States government second to none. Since as early as 1801, when the United States Navy was sent on a punitive mission to the remote area around Tripoli, virtually no single year has passed without United States government intervention somewhere in the world.[27] Three major wars were waged: against England (1812); against Mexico (1846-48), in which Mexico lost half its territory; and against Spain (1898), which resulted in the United States' occupation of Cuba and the Philippines. Contrary to popular myth, the Civil War, too, was essentially an expansionist war waged by the relatively more liberal North against the Confederate states. However, the great breakthrough to world dominance did not occur until the twentieth century, when the United States entered World Wars I and II. Both wars dramatically proved the superiority of United States might over the European states. The United States determined the victors as well as the losers, and both wars ended with a victory of the more liberal United States government—resting on a less taxed and regulated economy—over all of the more socialist-authoritarian European states (including the Soviet Union) with their more heavily taxed and regulated economies. With the end of World War II the United States had reached hegemony over Europe and, as heir to the European states' foreign empires, over large territories all around the world. Since World War II the United States has continued and even intensified its unrivaled expansionism with smaller or larger military interventions in Greece, Iran, Korea, Guatemala, Indonesia, Lebanon, Laos, Cuba, the Congo, British Guiana, the Dominican Republic, Vietnam, Chile, Grenada, and Nicaragua.[28]

Finally, history also provides the most vivid illustration of the direct link between a state's internal powers of counterfeiting and its policy of external aggression, as well as the banking and business elite's conspiracy with the state in its expansionist desires. The watershed

[26]See on this and the following Krippendorff, *Staat und Krieg*, pp. 97-116.

[27]See the table in E. Krippendorff, *Die amerikanische Strategie* (Frankfurt am Main: Suhrkamp, 1970), pp. 43ff.

[28]On twentieth-century U. S. foreign policy, see Leonard P. Liggio, "American Foreign Policy and National Security Management" in Radosh and Rothbard, *A New History of Leviathan*; Rothbard, *For a New Liberty*, chap. 14.

mark in the process leading to the rise of the United States as the world's premier power is World War I. The United States government could not have entered and successfully won this initially inner-European war without the absolute counterfeiting power that was achieved in 1913 with the establishment of the Federal Reserve System. It would have lacked the resources to do so. With a central banking system in place, a smooth transition to a war economy could be made and it became possible for the United States to get involved more deeply in the war and enlarge it to one of history's most devastating wars. And just as the prior establishment of the Federal Reserve System had been enthusiastically supported by the banking establishment (in particular by the houses of Rockefeller, Morgan, and Kuhn, Loeb and Co.), so the United States policy of entering the war on the Allied side found its most ardent supporters among the economic elite (notably in the firm of J. P. Morgan and Co. as the fiscal agent of the Bank of England and monopoly underwriter of British and French bonds as well as a major arms producer, and represented within the Wilson administration by such powerful forces as William G. McAdoo, Secretary of the Treasury and Wilson's son-in-law; Colonel Edward M. House, Wilson's intimate foreign policy adviser; and Benjamin Strong, Governor of the Federal Reserve Bank of New York).[29]

There is only one important element still missing from a complete reconstruction of the present international order: money. It is in a state's natural interest to expand its territory militarily; and hence, one should expect a tendency toward a relative concentration of states. It is also in a state's interest to engage in "monetary imperialism," i.e., to extend its counterfeiting power over larger territories; thus, a tendency toward a one-world paper currency should be expected. Both interests and tendencies complement each other. On the one hand, any step in the direction of an international counterfeiting cartel is bound to fail if it is not complemented by the establishment of military dominance and hierarchy. External and internal economic pressures would tend to burst the cartel. With military superiority, however, an inflation cartel becomes possible. On the other hand, once military dominance has made such a cartel possible, the dominant state can actually expand its exploitative power over other territories without further war and conquest. In fact, the international cartelization of counterfeiting allows the dominant state to pursue through more sophisticated (i.e., less visible) means

[29]See on this Rothbard, *Mystery of Banking*, pp. 230-47; on the role of the Morgans in pushing the Wilson administration into war, in particular see Charles Tansill, *America Goes to War* (Boston: Little, Brown and Co., 1938), chaps. 2-4.

what war and conquest alone might not be able to achieve.

In the first step a dominant state (a state, that is, which could crush another militarily and is perceived as capable of doing so) will use its superior power to enforce a policy of internationally coordinated inflation. Its own central bank sets the pace in the counterfeiting process, and the central banks of dominated states are ordered to inflate along with the dominating state. In practical terms, the dominating state's paper currency is imposed as a reserve currency on foreign central banks, and they are pressured to use it as a basis for their own inflationary actions.

Constrained not by actual demand but only by public opinion, it is relatively easy for a dominant state to accomplish this goal. Direct territorial conquest and the direct implementation of its own currency in foreign territories can be prohibitive because of the state of national or foreign public opinion. Yet with the power to destroy any specific foreign government—even though it is not strong enough for a complete take-over—little is required in order for the dominant state to succeed in *monetary* imperialism.

Internally, it will most likely encounter no resistance whatsoever. The government itself will be satisfied with this solution. For once its own currency is employed as a reserve currency by foreign banks on which they then pyramid their various national paper monies, it becomes possible for it to engage in an almost costless expropriation of foreign property owners and income producers without having to fear contractive consequences. Similarly, its own banking and business elite is ready to accept such an arrangement, because they, too, can thereby safely participate in foreign exploitation. Banks in particular are enthusiastic. And the public is largely ignorant of what is happening, or considers the exploitation of foreigners minor as compared to internal problems.

Externally, matters are only slightly more complicated. The dominated state loses resources to the dominating one as a consequence of this monetary regime. But faced with the possibility of losing its internal control altogether, it naturally prefers acquiescing to a scheme which not only allows it to stay in power but to actually continue in its own fraudulent expropriations of its own population by inflating its currency on top of and in accordance with the dominating state's paper money creation. For essentially the same reason bank and business elites, as the first receivers of their respective states' counterfeit money, are willing to accept this solution. And the general public in the dominated territories, which through this arrangement is subject to a double layer of exploitation of foreign states and elites on top of a national state and elite, is again largely unaware of all this and fails to identify it as one

important cause of its own prolonged economic dependency and relative stagnation vis-à-vis the dominant nation.

This first step, however, does not provide a perfect solution. The international monetary system is characterized by a dominant paper currency and a multitude of national paper monies pyramiding on top of it, and by freely fluctuating exchange rates between such currencies. On the one hand, this is less than satisfactory for the dominant state, because under these circumstances ample room is left for the possibility of its own currency depreciating against others, and such a development would pose a threat to its own role as a dominant power. For exchange rates are not exclusively determined by the inflationary policies of various central banks. Ultimately, and *ceteris paribus*, they are determined by purchasing power parity.[30] And even if a dominated central bank willingly inflates along with the dominating central bank, other factors (such as a lower level of taxation and/or regulation, for instance) can still make its currency appreciate against that of the dominant state.

On the other hand, the existence of a multitude of currencies freely fluctuating against each other is, as explained earlier, dysfunctional of the very purpose of money. It is a system of partial barter. It creates informational chaos, makes rational economic calculation impossible, and accordingly leads to inefficiencies within the very system of production on which the dominant state parasitically rests.

Thus, in order to assure its dominant position and maximize its exploitatively appropriated income, in a second step a dominant state will invariably try to institute an international—and ultimately universal—currency monopolistically controlled and issued either directly by its own central bank or indirectly by an international or world bank dominated by its central bank.

There are some obstacles on the way to this goal. Once the first step has been completed successfully, none of them would seem insurmountable, however. Naturally, the dominated state would lose some discretionary power under this arrangement. But this would be compensated for by the fact that its own economy would function more efficiently, too, if calculational chaos in international trade were reduced. Further, the banking and business elite in both countries would be adamantly in favor of such a monetary regime and would use their close ties to their respective state and international connections to promote its adoption. For, after all, banks and industrial firms are also in the business of making money through production

[30]On the purchasing power parity theorem, see Mises, *Human Action*, pp. 452-58; Rothbard, *Man, Economy, and State*, pp. 715-22.

and exchanges. Freely fluctuating exchange rates are an artificial impediment in their pursuit of this economic interest. And they will be perceived as dysfunctional more intensively by larger businesses, because it is big business, in particular, for which foreign trade plays a more important role.

In fact, the most severe resistance to the adoption of an international currency is to be expected not from the states and the economic elites, but from the general public. Since an international currency implies giving up an accustomed one, it runs against the very nationalism that all states eagerly bred for so long. This would be a problem especially if the public in the dominated countries were asked to adopt the dominant state's currency directly—name and all—because the underlying imperialist nature of such a monetary system would then become dangerously apparent. Yet with some degree of diplomacy and patient propaganda, this problem seems solvable, too. A new currency must be created, with a new name, defined in terms of existing national monies in order not to arouse nationalistic or anti-imperialist sentiments; and this new currency must only be somewhat overvalued against the various national monies (which in turn are defined in terms of the new currency) in order to drive all national monies—in accordance with Gresham's law—out of circulation.[31] This must be accompanied by the states' and the economic elites' constant appeal to the general public's sound economic intuition that—regardless of all nationalistic feelings—freely fluctuating national monies are an anachronistic institution which cripples rational economic calculation, and that it is in everyone's best interest to have an internationally (and if possible universally) used money such as the international banking system under the leadership of the dominant state's central bank is willing to provide. Barring any drastic change in public opinion in the direction of a strengthened private property and sound money orientation and a correspondingly increased anti-state vigilance, nothing will prevent the dominant state from achieving this complete international counterfeiting autonomy. And with a world money and world bank in place, and controlled by the dominant state's central bank, a decisive step is taken toward reaching its ultimate goal of establishing itself as a full-scale world government, with world-wide control not only over counterfeiting, but also over taxation and legal regulation.

In light of this explanation of monetary imperialism and its function as a "natural" (from a statist viewpoint, that is) complement of military

[31]On Gresham's law see Mises, *Theory of Money and Credit*, pp. 75 and 77; Mises, *Human Action*, pp. 781-83; Rothbard, *Power and Market*, pp. 29-31.

expansionism, the remaining pieces from the history of international politics fall into place. Hand in hand with the rise of Great Britain to the rank of the foremost imperialist nation state went a sterling imperialism. Not entirely free at the time of all internal obstacles in the way of counterfeiting, British-dominated countries were compelled to keep their reserves in the form of sterling balances in London, where the Bank of England would redeem them in gold. This way, these countries would pyramid their national currencies on top of the pound, and Britain could inflate sterling notes on top of gold without having to fear an outflow of gold. With Britain's decline and the concurrent rise of the United States government to the position of the world's leading military power, sterling imperialism has gradually been replaced by a dollar imperialism. At the end of World War II, with United States domination extended over most of the globe, and essentially ratified in the Bretton Woods agreement, the dollar became the world reserve currency on top of which all other states have inflated their various national paper monies.[32] For a while, the U.S. officially still maintained the pretense of redeeming foreign central banks' dollars in gold, and this somewhat limited its own inflationary potential. However, it did not prevent steady dollar counterfeiting on top of gold from occurring. The position of the United States as a militarily dominant international power (formalized through a number of military pacts, most notably NATO) allowed it to compel foreign governments to exercise their right to ask for redemption only sparingly if at all, so that its own dollar inflation could take place without setting off contractive consequences. And when its counterfeiting policy had incited foreign governments to become all too daring in their attempts to obtain gold at bargain prices, it was the United States government's superior military might that finally allowed it to give up all pretense and declare its notes irredeemable. Since then the Federal Reserve System has acquired the position of an autonomous counterfeiter of last resort to the entire international banking system.[33]

The imperialist nature of this dollar standard takes effect in particular through such instruments as the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (IBRD), and the Bank for International Settlement (BIS).[34] Money

[32]On the dollar standard established with the Bretton Woods system, see Henry Hazlitt, *From Bretton Woods to World Inflation* (Chicago: Henry Regnery, 1984).

[33]Since 1971, at which time the gold standard was finally suspended, more money has been created than had previously been accumulated by all nations throughout history.

[34]On the imperialist nature of these institutions, see also Gabriel Kolko, *The Politics of War, the World and United States Foreign Policy 1943-1945* (New York: Random House, 1968), pp. 242-340.

and credit, created by the stroke of a pen, is passed from these United States-dominated institutions first to foreign governments which inflate their national currencies on top of it and in turn pass this money on to their own cartelized banking system which, adding a further dose of counterfeiting, then hand it on to the various states' favorite business establishments from whence it ripples to the economic periphery. Parallel to this flow of money goes a reversed process of income and wealth redistribution from the periphery onto national business and banking elites and the various nation states as well as from the dominated territories to the United States government and the United States banking and business establishment as the ultimate center of world finance.

From a sociological point of view, the consequences are particularly interesting if these two integrated processes are superimposed on pre-modern, feudal societies. Such countries, primarily in Africa, Asia, Central and South America, are typically characterized by a class of feudal landlords, or feudal landlords-turned-financial-or-industrial-magnates controlling the state apparatus and mostly residing in the capital-city-and-seat-of-government; and by a class of largely landless, dependent peasants dispersed over the countryside and sustaining the state, the feudal elite, and the capital city through the payment of land rents.[35] Dollar imperialism here means upholding feudal rule, supporting and participating in the exploitation of an impoverished peasantry and the countryside by a parasitic feudal caste and the capital city, and contributing in the latter's suppression of any liberationist land reform movement. In fact, the typical Third World cycle of ruthless government oppression, revolutionary movements, civil war, renewed suppression, and prolonged economic dependency and mass poverty is to a significant extent caused and maintained by the United States-dominated international monetary system.

Since 1971, in particular, increased efforts have been undertaken in the direction of the second step in the process of monetary expansionism. Not all of the roughly 160 freely fluctuating currencies actually pose a problem, because most of them are in no danger, for internal reasons, of appreciating against the dollar and thereby strengthening the respective states' power vis-à-vis that of the United States government, or they play such a minor role in international trade that the calculational chaos which is introduced by their existence is largely insignificant. However, because of the relative strength of their currencies and their important role in international

[35]See Paul A. Baran, *Political Economy of Growth* (New York: Monthly Review Press, 1957), chaps. 5-6.

trade, the major West European states as well as Japan are a problem. Hence it is to these states and currencies in particular that United States-led attempts to create a world currency that helps rationalize economic calculation and at the same time safeguard United States domination and further increase its own inflationary powers have been directed. The creation of Special Drawing Rights (SDR's), defined initially in terms of 16 and later five leading export nations, and issued by the IMF, was a move toward a one-world currency and a one-world bank under United States domination.[36] Another important push toward this goal was provided through the activities of the Trilateral Commission (TC), founded in 1973 as an off-shoot of David Rockefeller's Council on Foreign Relations. Composed of some 300 highly influential politicians, bankers, businessmen, as well as intellectuals and journalists from North America, Western Europe and Japan, the Trilateral Commission has made the establishment of a world paper currency and a world central bank its primary concern.[37] Fervently supported by the Trilateral Commission as an intermediate step toward this ultimate goal as well as by several other politician-banker-industrialist associations with a substantial overlap of membership with the Trilateral Commission and devoted to the same ends, such as the Action Committee for Europe, the Association for the Monetary Union of Europe, the Banking Federation of the European Community, the ECU Banking Association, the Basel Committee and the Wilton Park Group, great advances have been made in aligning the European monetary front. In 1979, the newly created European Currency Unit (ECU), issued under the aegis of the European Economic Community, first appeared. Defined as a weighted average of 10 European currencies, and assisted by organizations such as the European Monetary System, the European

[36]See Henry Hazlitt, *From Bretton Woods to World Inflation*.

[37]A sample of prominent U. S. members of the Trilateral Commission includes David M. Abshire, counselor to the President; Frank C. Carlucci, former national security advisor; J. C. Whitehead, Deputy Secretary of State; Alan Greenspan, Chairman of the Federal Reserve System; Winston Lord, Ambassador to China; George Bush, President; Paul A. Volcker, former Chairman of the Federal Reserve System; Alexander Haig, former Secretary of State; Jeanne Kirkpatrick, former Ambassador to the United Nations; David Stockman, former head of OMB; Caspar Weinberger, former Secretary of Defense; W. Michael Blumenthal, former Secretary of the Treasury; Zbigniew Brzezinski, former national security advisor; Harold Brown, former Secretary of Defense; James E. (Jimmy) Carter, former President; Richard N. Cooper, former Undersecretary of State for Economic and Monetary Affairs; Walter Mondale, former Vice-President; Anthony M. Solomon, former Undersecretary of the Treasury for Monetary Affairs; Cyrus Vance, former Secretary of State; Andrew Young, former Ambassador to the United Nations; Lane E. Kirkland, head of AFL-CIO; Flora Lewis, *New York Times*; Thomas Johnson, *Los Angeles Times*; George Will, ABC television and *Newsweek*.

Investment Bank, the Society for Worldwide Interbank Financia Telecommunications, and the European Monetary Cooperation Fund the ECU has assumed a more and more important role. Since as ai average it is less volatile than the various national currencies, mul tinational banks and corporations in particular have found it increas ingly attractive to use the ECU as a unit of account and a medium o settlement: economic calculation is less haphazard with only thre currencies—the ECU, the yen, and the dollar—than with a dozen According to official intergovernmental agreements, by 1992 a Euro pean Central Bank—most likely as an off-shoot of the present Euro pean Monetary Cooperation Fund—is supposed to be established, an the ECU will become the all-European currency supplanting al national monies.[38]

With the European calculational chaos solved, then, and in par ticular with the European hard currency countries neutralized an weakened within a cartel that by its very nature favors more agains less inflationary countries so as to protect and prolong United State

[38]See on this also Jeffrey A. Tucker, "The Contributions of Menger and Mises to th Foundations of Austrian Monetary Theory Together With One Modern Application (Paper presented at the 13th annual conference of the Association for Private Ente prise Education, Cleveland, Ohio, 1988); and Ron Paul, "The Coming World Monetar Order" (A Special Report from the *Ron Paul Investment Letter*, 1988).

Prominent Europeans explicitly supporting the idea of a European Central Bank, th ECU, and finally a one-world currency include: G. Agnelli, Chairman of FIAT (TC); Deflassieux, Chairman of the BIS (TC); G. FitzGerald, former Prime Minister of Irelan (TC); L. Solana, President of Compania Telefonica Nacional de España (TC); G. Thorn President of the European Community and former Prime Minister of Luxembour (TC); N. Thygesen, Professor of Economics, Copenhagen University (TC); U. Agnell Vice-President FIAT; E. Balladour, Financial Minister of France; N. Brady, Vice-Pres ident FIAT; E. Balladour, Financial Minister of France; N. Brady, Dillon Read Invest ments; J. Callaghan, former Prime Minister of Britain; K. Carstens, former Presiden of West Germany; P. Coffey, Professor of Economics, University of Amsterdam; Davignon, former European Commissioner; J. Delors, former President of the Europea Community; W. Dusenberg, president of BIS; L. Fabius, former Prime Minister France; J. R. Fourtou, President of Rhone-Poulenc; R. d. La Jemere, former Governc of the Banque de France; V. Giscard d' Estaing, former President of France; Cl Goodhart, Professor of Banking, London School of Economics; P. Guimbretiere, Directc of the European Community's ECU project; W. Guth, President of the Deutsche Banl E. Heath, former British Prime Minister; M. Kohnstamm, former President of Eur pean University Institute, Florence; N. Lawson, British Chancellor of the Exchequer J. M. Leveque, President of Credit Lyonnais; L. Lucchini, President of Confindustri Italy; F. Maude, British Minister for Corporate and Consumer Affairs; P. Mentr Chairman of Credit National, France; H. L. Merkle, Chairman of Bosch Gmbh, We Germany; F. Mitterand, President of France; J. Monet, founder of the Europea Community; F. X. Ortoli, President of Total Oil and former Commissioner of th European Community; D. Rambure, Credit Lyonnais; H. Schmidt, former Chancell of West Germany and Editor of *Die ZEIT*; P. Sheehy, Chairman of BAT Industries; Solvay, Chairman of Solvay, Belgium; H. J. Vogel, Chairman of the German Soci Democratic Party; J. Zijlstra, former President of the Nederlandse Bank.

egemony over Europe, little indeed would remain to be done. With ssentially only three central banks and currencies and United States ominance over Europe and Japan, the most likely candidates to be hosen as a United States-dominated World Central Bank are the MF or the BIS; and under its aegis then, initially defined as a basket f the dollar, the ECU, and the yen, the "phoenix" (or whatever else :s name may be) will rise as a one-world paper currency—unless, hat is, public opinion as the only constraint on government growth ndergoes a substantial change and the public begins to understand he lessons explained in this paper: that economic rationality as well s justice and morality demand a worldwide gold standard and free, 00 percent reserve banking as well as free markets worldwide; and hat world government, a world central bank and a world paper urrency—contrary to the deceptive impression of representing uni-ersal values—actually means the universalization and intensifica-ion of exploitation, counterfeiting-fraud and economic destruction.[39]

[39]Jeffrey A. Tucker of the Ludwig von Mises Institute had an important influence n my understanding of the dynamics of the international monetary system—through 'equent discussions as well as through granting me access to his own related research. [eedless to say, all shortcomings are entirely my own.