1 Who Wanted Central Banks?

Central banks are ill-understood and most people – if they talk about money, its plenty and dearth, and its collapse in 2007 – focus their sights on banks and government treasuries. In many respects they are correct, as this book hopes to show. Central banks are the bankers to capitalist banking and to governments. Having said that, things get more complicated on the turf of central banks and money is that complicating factor. There are multiple understandings of money and, while none is perfect, some are deceptive or one-sided. Indeed, we have endured miserable ideas about banking and treasuries, or what it is that central banks do in *managing* money. After the last forty years, everyone wonders why civility is hard to find again whether in governments or in banks.

The era in which we live is divisive and unsettling. Once respected institutions devoted to doing little harm, work on principles that evade the rule of law. Banks are one case: far from serving their clients' best needs, financial institutions are devoted to plundering them. Line management runs from crassly well-off executives to ill-paid tellers ordered to deceive us and the authorities. Bank tricks are so dangerous that central banks and treasuries must rescue them. This book will not speak of a 'banking culture' where 'rogue traders' apparently flourish from nowhere. To the contrary, finance corporations are as indecent as they were in 1920–33, as I show. 'FIRE' (finance, insurance, real estate) appears to run everything.

Another tendency is that everyone has 'retreated into the present'; dignitaries and scribblers make long-term predictions based

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on yesterday's events.[1] The powerful take it as a right to lie, and this post-fact world is not new. Bank CEOs (dealing in or selling flimsy promises into the future most of all) demand certainty that no one can ever have. Efforts to squeeze uncertainty out of specific sources of unpredictability either fail or backfire as with the 2007–08 'sub-prime' catastrophe. For years, central banks had to help these banks try to control the future – with techniques that can wreak havoc on social and economic life, and above all must validate the past errors of banks. When that is obvious, central banks are easy targets of blame. Self-financing, dividends from their huge profits go to their Government's Treasury, an operation muddied with those few central banks that are still privately owned, or partially so. The US Federal Reserve System (Fed), the most dominant central bank in the world, is a mix of private and public ownership. Central banks – at arm's length from democratic states, but *not* from capitalist banks – are more financially secure than other independent government agencies.[2] Many democratic states are no longer trusted, whereas central banks are mostly unknown.

It may well be that central banks also deceive us, particularly the US Fed, which is, legally, partly directed for profit by Wall Street bank executives since its founding Act (the Federal Reserve Act [FRA]) in 1913. And yet, remarkably, since the Global Financial Crisis (GFC), the Fed has been speaking the language of civility, despite the Fed's divisions, its public forked tongue, and secrecy. The most recent former Chair, Janet Yellen, stressed that the interest rate should stay low until employment and wages improve, and inflation lifts off again. She has faced battalions of the ignorant and posturers, however, central banks are urging policies unheard of for two generations that the book recollects.

[1] A decent society *aims* not to humiliate. It requires a civil society which at the least is tolerant: see Markus (2001) and Pixley and Browne (2010). The 'retreat' into the present is a concept from Elias (1987) and see Elias (1970).

[2] 'Capitalise gains and socialise losses' is apt. The Bank of Italy is the other major central bank (CB) that is/was fully privately owned: Giannini (2011) gives an overall survey of CBs though my approach differs.

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Instead of starting blandly with their functions or state mandates and remits, common in the central bank literature, I begin with the historical question of which social groups wanted central banks. Then the book looks at a number of central banks in the democratic times of the twentieth and twenty-first centuries. Before that, 'electorates' were tiny, exclusive. Bourgeois capitalist elites inside states and in banking sectors designed and controlled central banks. Semi-feudal European sovereigns wanted them to fund wars, and capitalist merchants had interests in state protection: these earliest central or ersatz public banks were experimental, and many broke down (from Venice to Amsterdam). This is because money is always unstable since it consists in promises to pay (IOUs), of guarantees into the future by both creditors and debtors (to success or failure). The rise of nation-states and capitalist economies was actively sponsored by these close-knit rulers and classes, as Max Weber put it, for the state to rule and the merchant-financiers to make money. Central banks were the go-betweens, and populations had no involvement whatsoever in their inception.

Fast forward to the twentieth century, where a handful of the many new central banks were installed and designed by elected social democratic governments. In fact, the advent of democratic processes threatened to ruin the 'clubs' of state royalty, 'robber barons', of capitalist merchants that banked with central banks. *The twentieth and twenty-first centuries are this book's subject for that reason*. The US Fed is the focus, but the book stresses that different central bank models do exist; indeed, few copy the old Bank of England (BoE) model or the Fed's. This may surprise, and it is true that since Britain's overall decline, everyone watches the US empire/power-house and its Fed. The US imposes a 'one best way' that inflicts damage and crises in the different contexts of other countries' financial practices that are variously effective in coping with capitalist money, always difficult with mobile capital and US global currency fluctuations.

And yet, since 2007, elected leaders and executives locked in bubbles of privilege are utterly confused. Since the resurgence

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of activist financial sectors, many bank-supported political parties aimed to destroy democratic procedures and have removed the 'wets', the doves, the vulnerable and decent social democrats who were properly called civil servants to the people. 'Inflation' and state budget 'deficits' became alleged enemies. Then suddenly, incredibly, central banks begged for more inflation and keep harping about jobs and economic activity, although the European Central Bank (ECB) was busy creating more jobless even as the GFC spread. Prime Ministers and Presidents further weakened trade unions, waged wars, while agitators stir hatreds. History is constantly rewritten to abuse hopes for social democracy or any informed public. Who knows how wars are funded? Fact-checkers for scrutinising the chorus of lies or meaningless jargon streaming from corporate bank and government executives seem to indicate something worse. The slang used inside states and banks is far more value-laden than the terms I use in this book, like 'uncivil', 'humiliating', 'cruel', 'indecent', through to 'tolerant', 'civil', even 'decent'. Puerile dualisms of gang fights that give the power game away are 'hawks/doves'; 'wets/dries'; 'brown-cardigan losers'. There are feudal images of Darth Vader; big swinging dicks or Michael Douglas bad guys, whereas the slogan 'greed is good' *ad nauseam* is outdated because it is the norm. Misogyny, racism and vilification of the poor are out in the open, less original than children's chants of 'teacher's pet' or 'tittle tattle': the solidarity of tiny tyrants.

Governors or Chairs of central banks are not immune. My interviews in the 1990s to 2010s with the more civil, often truly decent informed central bankers did show anger, through to embarrassment, or cognitive dissonance, should one dare to ask why low-paid workers are sacrificed on the altars of austerity, joblessness and pitiful wages. Some denied central banks made political decisions in raising interest rates against people's social desires and desperate needs for money. Yet sceptics informed about money stressed, instead, decent methods to reduce inflation without such cruel, senseless results. Central banks could work strategically with their treasury: progressive taxes are known to reduce inflation, for example. Forget that: central banks were ordered to induce recessions, just like in pre-democratic times.

Central banks are in a harsh spotlight, as often before, partly because so few know what they do. Virtually no political leader or commercial banker (who cares not to know) understood or explained, when the GFC hit, how central banks suddenly created money, and so much. And saved the banks, which create far more money. When, in 2008, that bank money disappeared, everyone froze in fear. Was money so untrustworthy that it could vanish? The public had rare glimpses into money's previously unknown workings, operating behind our backs. States returned to full view and with their central banks became saviours: financiers had long dismissed states for 'repressing' banks. As it turned out in the GFC, the 'saved' was that exclusive crowd of fantastically rich in the vast financial sectors, parts of which we found out were corrupt. That varied across places; the smaller, but by no means poor countries often had the better central banks. There is even a modicum of egalitarianism left in, say, Canada, Sweden or Australia, the least GFC-affected countries. My favourite quote in 1998 was a US official who told me 'I do regret my advice to Sweden', for misapplying the US finance system to Sweden's.

In the OECD countries that created the GFC, the seeming order of things turned upside down, from markets, corporate (money-production) outfits and weak (if mean) states, to *money* at the centre of the whole show.[3] This cannot be stressed enough. Capital-labour relations, hardly congenial before, were further at the mercy of banking's reckless activities. Firms and households collapsed – the debtors – and the more criminal so called creditors. Since then, not one post-GFC politician has (publicly) argued that while central banks create money, so do private banks, which manufacture the bulk of the money that we use – except when they stopped in October 2008.

[3] My finance sector interviews are explained fully in Pixley (2004); my central bankers were mostly retired. The OECD is the Organisation for Economic Co-operation and Development.

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Enter central banks onto the political stage (possibly to be sacrificed); these monstrous chameleons that, having cast workers and the jobless into humiliation for forty years, are begging their masters for the emphasis to be on job creation. Banks are not interested. States have resolutely refused, preferring austerity, yet governments previously improved economic activity through peaceful stimulus. That is the simple if correct and decent story that aimed for dignified meaningful lives.

My argument takes a different tack: Central banks are identifiable and (too) easy targets of attack. Who will dare take on J. P. Morgan given its 130-year banking history of dubious interference with the world? And wars still vie with peace: how 'pleasant' are states? Money is the social force that needs full recognition to the point of seeing that control over the production of money by banks or by states is the major social tension and historical conflict, as Geoff Ingham puts it. In between these two mighty forces, central banks are bankers to their governments and to capitalist banks, which are both harsh taskmasters. On occasion, in specific social-political circumstances, the forces of capital and labour – the producers – have intervened, but not in the recent GFC. Some question whether citizens really need central banks. That would depend on whether central banks are permitted to serve the public good (somewhat) rather than fund the old institutions of capitalist money and war mongering states exclusively. Some remain vital *and* decent. Usually they are not allowed to work with Treasuries for the public. If we want to see the naked power-dealers, we should not look first to central banks. To assess this, the book selects major incidents that affected central banks from mainly the sorry twentieth-century record to the abysmal GFC (2007 to the present), and including the mid-century moment when money was open to some democratic scrutiny.

The bones of the argument are unusual, although the obvious practices, centuries old, that all money is debt is continually banished, to the benefit of banks and states, unwittingly or not. That idea must not be lost or silenced to mystifying tactics.

- Central banks (CBs) are not rigidly similar: Some are/were exclusive and secretive, adjudicators of the clash of raw vested interests over the purposes of money; others attempt civil, public deliberation about their remits. Full employment (FE) and price stability are twin mandates of the US Fed and Reserve Bank of Australia (RBA), but most central banks are confined to price stability (anti-inflation) without FE (anti-deflation). By the mid-twentieth century democracy partly entered CB workings, with FE to stop them inducing recessions – but that emphasis later switched. CBs keep changing, then. The unexpected occurs that reshapes them for better or worse.
- The separation of form and content brings sharp dissonances – the form claims public good, but the content of central bank policies has major distribution effects, winners and losers that depend on the social distribution of political power over money. Treasuries can correct maldistribution, less so central banks, but both increase inequalities via public decisions. The funding methods of vast nuclear arsenals (say) is secret; unspoken.
- My precarious line is trod between uncivil, indecent doctrines, based on counterfactuals (not evidence) and on support for old exclusive social forces and, in contrast, the fragile social democratic practices and civil discourses abused for decades. This book explores evident pressures on central banks during civil and uncivil eras in the twentieth to twenty-first centuries, comparing typical capitalist-state patterns but in different contexts – of democratic norms, either welcomed, respected, or begrudged even blasted to empty shells manipulated by private money and state money production.
- Different CBs are selected, with diverse aims imposed under coalitions of the dominant interests of the time and place (that invariably change – and one cannot cover them all) – so the book gives a few comparisons. The mighty US Fed gets the most attention but a few outliers like the RBA or Bank of Canada (BoC) serve as energetic historical contrasts; the BoE too, but as the former hegemonic CB. If all kinds of purposes have been intended for central bank money creation, then there are no eternal rights or wrongs.
- The book draws on recent and past scholars (selectively), of note Karl Polanyi, who criticised those treating money as a commodity; André Orléan likewise argues liquidity is a term that denies money's social nature. These terms hint at the inequality in the opportunity to make

liquid (or saleable) all assets. Most people have only one 'property' to sell: their capacity to labour. That is difficult in stagnant job markets. To Polanyi, land, labour and money were abused as commodities. Unlike money, the first two are obvious, thus climate change. Objectified labour is a 'hired hand' or a 'human resource'.[4] Just as humans, with our richly diverse capacities, are turned into objects for statistical analysis and sharp trading, so is money, which consists in mutual promises, contracts and obligations into the (uncertain) future. *Money is not a thing and involves generative relations*.

- The towering figures of Joseph Schumpeter and John Maynard Keynes must appear, because their social analyses are the start to explicate today's practices and production of bank money and state money. Some have brought the sociology of money into prominence, notably Ingham, Orléan and others. Works in political science, economics past and present, history and social policy are also discussed. Few outward-looking or socially alert meanings of money's creative power are ever free of doubt. Vicious counter-attacks arise, assuming a lofty bystander, which is impossible as everyone has a world view.

It is possible that central banks are duty-bound to defend 'state-capitalist money' and cannot do much else. Bearing in mind my entry-points on the crucial advent and impact of formal democratic procedures over money, let us reconsider the present. On 8 November 2016, a new US President was greeted in German press headlines with the phrase 'Horror-Clown!'.[5] The *Financial Times* ran a campaign against ideas of UK Prime Minister Theresa May and US President Donald Trump about central banks. No judgement is possible (so soon), except to say that jokers are part of any pack of cards, and this pack is tied to specific state and financial motives, that the book lays out. The vision of political leaders able to achieve anything

[4] Readers may find these approaches useful (I am not debating every teensy point theorists ever said, just what's suitable). My motto is beware of eternal 'universal' pomposities that Polanyi (1957 [1944]) criticised. He was hopeful that this nineteenth century trend was over by 1944. Social policy talked of the 'decommodification' of labour in the 1960s–70s; land became the scientific study of climate change. Money as a commodity is rarely analysed in Polanyi scholarship, with honourable exceptions.

[5] On the German press, see Lane 2016 and Sandbu (2016b). The *FT* was furious that the Fed and BoE were attacked, e.g. in Sandbu (2016a).

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by barking out orders without diverse support is obsolete if it ever applied. As well, what a leader achieves, and whether she or he understood the implications, or not, are debated for centuries. I emphasise that in the twentieth century, politicians were gradually more separate from their usual allies in industry and/or finance (although less so for the last forty years). Before then it was difficult to distinguish their private from public interests. For example, the Bismarck family was, when Fritz Stern finished his famous work in 1977, the richest in Germany due to Otto's blurred lines of war finance and personal finance. Complex democratic policies to serve many walks of life suffer from any return to feudal patrimonial amalgamations.[6]

HISTORICAL MOTIVES FOR CENTRAL BANKS

Instead of hinting at mysterious social forces, I aim to call them forth; to describe the important private sectors' public roles and governments' duties to their electorates, in respect to pushing for changes to central banks. To compare with pre-democratic days, I briefly discuss a few bare bones of the semi-feudal motives for the creation of central banks. Depending on the central bank, sceptics among my interviewees were critical of them, but the more arrogant assumed that central banks should treat the downtrodden as expendable. We were not the citizens of the 1960s. Their friends on Wall Street, the City of London, or the Frankfurt stock exchange were executive traders, who spoke ironically in the language of warlords. They would 'rip off faces' of firms or governments waiting to be 'screwed'. Their surroundings looking over Lake Zurich or the Hudson River were lessons. To stroll (with care) on pot-holed Wall Street down below is to be among the street venders like old times.

[6] See McDonald (2016) on 'the joker'; I emphasise the disparate forces creating a leader, not only a voting base; on Bismarck, see Stern (1977). On patrimonialism in UK/Europe, see Weber (1978) or Louis XIV's absolutism in "l'état c'est moi"; like Chinese feudal lords who talked of 'their' state, in Osnos (2018). Semi-feudal states recur in weird forms and weeding out 'cronies' remains patchy. Industrial (debtor) sectors *have* supported democratic aims of general well-being, if rarely (in Chapter 4).

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About 500 years ago, a handful of these central banks emerged from experimental bargains between sovereign feudal monarchs and the rising bourgeois capitalist classes in Europe. Capitalist money became the core social fact: in general, the motives of both sides were for some sort of public–private or central bank to manage their assets and liabilities to each other: each was mutually dependent. Gradually no one could survive without this money, but only a tiny fraction invented and controlled these deals: aristocratic elites of the rising nation state and new bourgeois class, which between them transformed a feudal economy of kings, nobles and serfs into a capitalist economy and nation states, of labour-capital and significant debtor-creditor money classes. The reader is saved the details of the great literature, since there is only one fundamental point needed to introduce this book. At the time when experimental central banks came into being, there was no democratic involvement in this 'symbiosis' of sovereign and merchant moneys that we all use.

In the central bank literature, a common theme is that in the twentieth century, these banks had to cope with 'the masses'. To some, that complicated central bank work. One cannot stress enough the elitism and disdain entrenched in the dominant central banks, those few that started ages ago. The Bank of England (1694) is a creature of kings and rich merchant-cum-aristocrats. The US Fed, founded in 1913 after a century of political ambivalence and bottom-up debates about money, and two defunct central banks, was created after the 'gilded age' by an exclusive state and a handful of 'robber barons' and financiers (Rockefeller or J. P. Morgan) in league with Congressional politicians.

Capitalism's violent origins was not the only source of immense global change. Change arose out of the fragmentation of lords and peasants, subsistence activity, person-to-person credit (IOUs) and local coinage. Far-reaching IOU trading systems were developing. Trading merchants funded European/English warlords battling to control territorial patches and, if their centralising aims were unintended, it was this partnership that made state unification and capitalist money possible. Both needed each other, the princes needed funds to fight wars and the merchants to receive 'royal' protection. One cannot look at the question of 'currencies' and labour 'markets', without recognising what state violence achieves. A central currency became imposed with the coercion of taxes only acceptable in that currency, and with (more) violent protection for bank money and its markets.[7]

Portugal was probably the first centralising state to ally with merchant-financiers and build heavily armed ships for merchants to collect 'far away' precious goods and to arbitrage – that is, to buy cheap and sell dear. These vicious systems, by far the biggest being the Dutch East India Company, were aloof from, but menaced local economies: luxuries went to 'royal' courts and to the merchants who funded state war finance and pacification over other warlord-mafia types and their subjected local peoples. Karl Polanyi rejects as fiction the orthodox view that from time immemorial people 'bartered' in markets for goods, and later with a 'handy' token – money – representing the goods. No: these bills of payment were promises over time. In contrast, the only barter in hunter-gatherer societies was equally long-distant trade that had little to no impact on their 'embedded' social structures. These reciprocal 'spot trades' between small stateless societies living thousands of miles apart in many cases (in Argentina, Australia, Canada), or feudal or caste hierarchical arrangements prevailed (with subsistence enmeshed in such complex societies), until the 'great transformation' around the late eighteenth century. Europe's virulent and dangerous merchant or pirate speculation in the New World, in Russia and India to extract huge concessions, also fatally weakened feudal hierarchical structures in a Europe that was also undergoing chaotic nation building, with the unending desires of princes for loans.

[7] Giannini (2011) on CBs is typical on 'the masses'; populism, ill-defined, is another charge; there were also some princesses. There is a huge literature on the 'transformation', such as Arrighi (1994), often recounted (e.g. in Pixley 2013). To Elias (2000), warlords aimed to keep territory, not centralise, he argued, but it happened inadvertently. Ingham (2004) makes the 'fusion' the most unusual aspect of 'state-capitalist' money, one that is used herein, and typically involved a central bank or proto one. See also Wray (2014a) on currency.

These civil or uncivil capitalist IOUs for distant trade, and nation state debts, often with tally-sticks recording the 'personal' sovereign's own debts, involved all kinds of deals with the bourgeoisie or *rentiers* – those who charged interest (for example hidden in land rents, or *rentes* in French).[8] Some deals with proto-central banks later proved unstable, such as the Italian city-states (Venice, Medici Florence and Genoa) or Amsterdam. It was only by chance that the English created the capitalist money–state fusion that remains to this day. War finance and protection for money producers seeking profit is one old motive; money for its own sake is the other old motive – but eventually they joined forces uneasily. Their new institution was the central bank.[9]

The earliest central banks often started as temporary 'solutions' to immediate problems posed by the specific social-cultural tendencies of the time and place, in which certain *ideas* were part of the prevailing habits and conflicts thrown up. This was the case of the BoE, chartered in 1694. A cash-strapped William III searched for ideas to pay for more wars, one of which was a state lottery. Instead, nearly by chance, the 'solution' gave the world capitalist money. Polanyi suggests English central banking ultimately offered protection to business enterprises from the disruptions of a *pure* market monetary system. The big issue – who is dependent on whom in state-money and bank-money relations – has fluctuated (it's rarely clear). That combination of public debt and private debt was forged after the English Stuart kings defaulted on merchants. William III's Bank Charter, instead, gave the BoE a privileged monopoly position. J. K. Galbraith explains the loan from wealthy creditors of the privately-owned BoE by noting that 'the government's promise to pay would be the security for a note issue of the same amount' to private

8 Polanyi (1957) [1944] on markets: the idea of an 'economy' was irrelevant before capitalism; see Howell (2016) on the hiding of illegal 'usury' in rents as the origin of *rentier* (and she mainly refers to Joseph Fugger).

9 Arrighi (1994) on the past 400 years; Ingham (2004) and 'fusion' as mentioned before. Chapter 2 explores central banks' roles in war finance, a vexed question that tends to be trivialised in much CB literature.

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borrowers. Money doubled with this loan, as is evident in bank balance sheets. To Weber, it was an alliance: states would make war and 'merchant classes' would make money. The state set up markets in money and 'free' labour. The process was fitful, often brutal; it did not follow Dr. Pangloss's optimistic path into a glorious overdetermined future.[10]

A new type of 'capitalist money' developed states and economies in revolutionary ways, at times with decent results. How far state violence makes capitalist money possible is incalculable, since the (secretive) strong state is not going away, nor the weak states that are cash-poor and less able to pacify. The strongest early centralising states used the violence of policing powers, branding of counterfeiters and debtors' prisons, balanced by banks' political control over debtors like sovereigns who spend, and must tax if inflation or debasement threatens.[11]

Impersonal emotions were built into the institutional 'deals' – fear, distrust and self-righteousness on all sides. British governments tried to check the private BoE's abuses of government repayments and profiteering from paper money, with rare success. In Gladstone's view, in 1694, William III had put the state in 'a position of subserviency … to induce monied men to be lenders', describing the imbalance as 'the money power supreme and unquestioned'. Britain's Bank Charter Act of 1844 tried to give the BoE's management of the national currency a quasi-public basis, but defined that as an 'automatic, technical' matter rather than a 'public responsibility'. The BoE's deals with its friends remained hugely profitable. Efforts to put a 'central' bank into

[10] See Polanyi (1957: 192); Galbraith (1975b: 31) who called this 'simple' practice repellent; Weber (1981: 264–5) and Ingham (2008: 32–4). See Tables 1.1 and 1.2. Here I refer to Voltaire's satire *Candide*, and his tragic Dr. Pangloss – against the liberal-capitalist 'Whig view of history'.

[11] Counterfeiting arose defiantly in the transition from local currencies, 'near money' and IOUs, to the state-capitalist currency. See Wennerlind (2001), Ingham (2004), and see also Wray (2014a): state spending in the currency is logically first, before taxes and debts are accepted only in that currency.

a role of public trust (that Walter Bagehot preferred) only lasted for a while in the twentieth century, as we see in numerous disputes.[12]

Nevertheless, the BoE came to regulate commercial banks with prudential supervision: the last run on a British bank was in 1866 – until Northern Rock in 2007. The BoE 'deal' looked attractive. The two sources of money fused, in a way, into one 'sovereign monetary space', the public debt of state bonds, and the private debt of bills of exchange. This kernel remains.[13]

The BoE is often taken as the universal model, partly because in the nineteenth century, Britain was the pound sterling hegemon, like the US and its dollar in the twentieth century. With the BoE established, and with Britain's land cleared of peasants over centuries, industrial (labour – capital) developments began before Europe, which set up somewhat different CB models. Their aims varied. The BoE combined to prosper with global London merchants (banks) mainly by funding war finance and advancing as 'loans' these notes (money) that relied on the Crown's security. Some states directed central banks to other sectoral approaches, such as to industry, which helped labour. Not all peaceful – the French example of Louis XV who was tempted by John Law's BoE model, but with a weak bourgeois class, was a drastic failure – unlike the ultimate bourgeois victors of the English Civil War. The British Crown was on notice to bourgeois Parliament in London, which promoted the City's merchant banks and the BoE.[14]

The BoE later had control over the dominant world currency, pound sterling, shared with treasury. Meantime the commodification

[12] See Kynaston (1995: 19–20), citing Gladstone; Bagehot on the 1844 Act is cited in Kynaston (1995: 22): there's a tongue-in-cheek in his recording. See also Tables 1.1 and 1.2. We usually don't notice money/central banks until crises and massive efforts to cast blame, or even to discuss money.

[13] On the 1866 'bank' run (one of many before), see Flandreau and Ugolini (2013); Ingham (2004: 128–9) on fused moneys.

[14] See Epstein (2006) on variations in central bank models, more on which is in Chapter 2; John Law is in Schumpeter (1954: 294; 311), Coombs (1971: 1) and Ingham (2004: 51; 211), who agree Law was correct about manufacturing money. Governor Coombs (RBA) said 'hard-faced' central bankers kept this secret, partly from the Law experiment's drastic boom and bust, but also, after Law explained he only copied the BoE's repellent money creating practices, French 'faith' in both disappeared.

processes (land, labour and money) introduced new relations of money classes, labour-capital classes and their specific stratification systems. These became embedded in global economic activity and countries – affecting all the hinterlands. Polanyi saw the late nineteenth century like this:

> Budgets and armaments, foreign trade and raw material supplies, national independence and sovereignty were now the functions of currency and credit. By [then] … world commodity prices were the central reality in the lives of millions of Continental peasants; the repercussions of the London money market were daily noted by businessmen all over the world; and governments discussed plans for the future in light of the situation on the world capital markets. Only a madman would have doubted that the international economic system was the axis of the material existence of the [human] race. (1944: 18)

By that time, as he said, the British might send gun boats, but that was often less needed when the BoE could pull the thread of gold on a naughty colony or miscreant satrap, or the City of London might refuse to lend. The BoE was 'the conductor of the orchestra' (to Keynes) of international capital, currency exchange and global trade in the nineteenth century, which suited UK Treasury-imperial interests and English merchant–commercial classes (the City), but not the UK's industrial classes and county banks.[15]

THE COMING CAPITALIST CURRENCY HEGEMON: THE 'SETTLER' USA

The land clearances of peasants in Scotland and England and the complete conquest of Ireland (Cromwell and William III) meant that vast

[15] Ingham (1984) shows the nexus (or troika) of the City-BoE-Treasury was barely driven to favour British industry (ever) and the BoE focused on managing the international 'orchestra' (Ingham uses this loved quote of Keynes for his own argument). This was unlike the Continental emphasis, Japan's or even the USA's, on industry and its workers, for CBs (Epstein 2006).

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numbers of displaced people sought refuge in, or were transported as convicts to, 'settler' colonies in the Americas. The slave trade from Africa became British-dominated in the 1660s (and the BoE was involved commercially).[16] Population movements reached their peak during the colonialising nineteenth century. British aristocrats' improved agricultural arrangements could not compete with the colonies' eventual output to Europe; keen to preserve their county estate comforts, many married into rich English families of the new capitalist merchant classes.[17] On the Continent, class transformations were much slower; the Habsburgs, for example, nurtured their peasants instead of clearing them off their land, to remain available for conscription into huge land armies; Napoleon won over the French peasants (to fight) via land rights. The UK's naval-based war power never required the extensive cannon fodder of Europe.[18]

A very diverse USA grew out of Europe's colonial carve-up, in the 1600s: an English agricultural economy in the south based on slavery; the French installed a semi-feudalism in Canada and the northern (US) lakes,[19] and similarly the Dutch West Indies Company further south-east; as well, aspects of modern finance (trades in stocks, banking)

[16] Ireland endured 600 years of English tyranny. England's early American cotton trade of settler-planters and slave trading began with Elizabeth I; later West Indies English sugar planters appealed for help to the House of Lords, attracting the City of London Corporation's interest, the Bank of England, Lloyd's insurance. All profited from the Atlantic slave trades, and built up ports in London, Bristol and Liverpool, which was the largest slave port ever in the world (see www.parliament.uk/about/living-heritage/transformingsociety/tradeindustry/slavetrade/overview/parliament-and-commerce/).

[17] The peak free migrations to the 'settler' Americas, Africa, Australia and NZ were from all of Europe, China and other countries in social turmoil; peasants cleared from rights to land in the British "Enclosures" benefited aristocratic land-holders until the mass migrations helped build up agribusiness competition of settler countries. See Schwartz (2000) on the rural aristocratic decline; the triumph of British bourgeois financiers over old aristocratic political/economic power we explored earlier.

[18] The contrasting Continental approaches to peasants are detailed in Pixley (2013) and, later in this chapter, the UK convict system. See Marx (1978 [1852]) on Code Napoleon and resulting peasants' debt peonage.

[19] Detail personally acquired, and to emphasise that orthodox economics has little interest in historical developments of class segments that vary greatly; and which influence the designs of CBs. French (Canadians) played a large part in opening the mighty lake-river system; also, some later became US 'robber barons', for example; but these old rich Dominions' CBs are rarely studied.

began in a tiny corner of New Amsterdam (Wall Street), whereas religious radicals escaped from persecution to Massachusetts. Trade with the Indigenous peoples ended in ghastly wars everywhere. The displaced of Europe migrated to the USA to be low wage labourers in eastern towns, or small farmers of the 'Westward Ho' movement. The US constitution's 'founding fathers' – wealthy capitalists, had numerous visions but the 'united' states had quite diverse economies, historical and ethnic traditions that hardly matched the visions. For example, Alexander Hamilton, the industrial warrior, took a pro-Wall Street, opposite position to Thomas Jefferson, a Rousseau-leaning small-farm advocate, and personally a slave-owner. Jefferson's argument was that wage labour was a dependency to be avoided in the free 'new world', as is evident in the US Constitution's 'self-evident truths'. Small farmers enacting the free society of independent white men (not a wage labour society, let alone unions), he proposed, would not be totally dependent on a monetary economy, but on mutual aid.[20]

For a long time, (white, male, free) Americans shared Jefferson's money views, and opposed a central bank. Whereas Jefferson said the banking establishment was 'more to be feared than standing armies', in contrast, and aiming to copy Continental Europe, Hamilton had pushed for war-finance and industry-promoting remits of an American central bank. His benign view compared to Jefferson's about Wall Street as a centre of 'the depravities of human nature', signalled America's long-held 'ambivalence and chronic culture warfare' against Wall Street. The tribulations of two different efforts at creating a US central bank in the nineteenth century demonstrated how merchants (sea trade and money) and federalism were tied up in conflicts between agrarian (south and west), manufacturing (north), also, local state versus nation-state building interests. In a nutshell,

[20] See Pateman (1979) on Rousseau's ideals and the US constitution debates; Galbraith (1975b: 28–9); and both on Jefferson. Women had no role in the constitution and the cliché of Southern slavery is belied by how slaves were more widely abused across the whole USA than is often thought.

US farmers and small businesses did not want a central bank or gold standard rule; Wall Street did, and eventually so did Washington DC.[21]

American 'exceptionalism' neglects the stark problem that during the century after the War of Independence, the USA was financially dependent on the UK. Former US Fed Chair Paul Volcker recently questioned the view of the USA as 'a huge and relatively self-sufficient country in control of our own destiny'. That view was shaken, for example, in the US 'first great' depression of 1837–44, which was a galling experience for Americans after winning independence from Britain. As recounted in Alasdair Roberts' sensitive history,[22] it was humiliating the US Administration had so lost 'credibility' abroad that it found no lender prepared to fund a war over British-Canadian territory – particularly not the British! In 1837, Treasury was broke, and the 'union' was far from perfect. Having engaged heavily in development and/or pork-barrelling, eight states defaulted on British creditors, including New York, which led to self-restrictions on local states borrowing from the City of London. Violence erupted everywhere, that is, not counting the tariff *versus* free-trade conflicts of the North and South, leading to the Civil War soon after.[23] US Treasury had no control of the few income taxes (except briefly in the Civil War) until a 1913 Amendment to the 1787 Constitution, in the same year as the US Fed was founded.

This abbreviated outline of the convoluted disunity in the US points to my argument in Chapter 7, that neither mono or federated monetary unions are so securely united as to blame the problems of today's ECB and Euro model solely on lacking a fiscal union.[24] Chapter 2, on 'war finance', discusses the key aims of the 1913 US

[21] These variations are heavily simplified. Galbraith (1975b: 29) had Jefferson's quote and see in Fraser (2005: xvi) on Wall Street. Also, in the politics, rural exporters wanted free trade; manufacturers protection.

[22] Roberts (2012: 1), citing Volcker, with a thesis that supports him. It's a good example to compare with the EMU, Chapter 7.

[23] The up-state New York Dutch peasants had a terrible time, still enduring indentured labour. Also, on how the (early) Monroe Doctrine suited the UK, see Roberts (2012).

[24] Tariff protection was/is a tax avoidance strategy, which hit the poor hardest. Comparing the United Kingdom with the US federation (in Chapter 7), the UK is not a federation nor

Federal Reserve System as it rose to prominence in WWI. Of importance for this chapter is that the well-informed small farm conflicts over money ended, farmers’ sensible desires thwarted, in the ‘gilded age’ (from the 1890s onwards). Top bankers in Wall Street, like J. P. Morgan, straddled industry and banking, and the White House and Congress started to operate in an ‘integrated’ manner with bankers. They moved from lending for production, to consolidating and packaging corporate securities into ‘Trusts’ with huge corporations (General Electric, US Steel and many more).

Democratic participation narrowed. Although President Teddy Roosevelt tried ‘to bust the ‘Trusts’, chances were slim, given J. P. Morgan was globally powerful, having helped to bail out the English Barings Bank that nearly folded in 1890. Furthermore, Congress members took bribes from big business (such as Standard Oil), and connections grew. A Senator and millionaire businessman, Nelson Aldrich, came to play a major role in the founding of the US Federal Reserve in 1913, along with Morgan and other Wall Street bankers. They had so increased their control over the US economy that the former nineteenth-century democratic disputes *against* a central bank were lost, to a US Fed that was pro-Wall Street and pro-American global ambitions.[25] And this came to pass in the 1914–18 world war.

Veblen satirised the gilded age. These financier-business men were always disruptive, inefficient and cause of depressions. The latter are a malady of the businessman, and central banks have rarely coped (well) with depressions. The BoE did not decline gracefully (examined in Chapters 2 to 4, also on CBs’ roles in depressions), and it was founded in an entirely undemocratic context; whereas the US Fed

united or single, since this mono monetary non-system is run from the London ‘nexus’ to suit those interests not, say, Yorkshire’s.

[25] Ingham (2004: 8) on the ‘cross of gold’ protests ending in the gilded age. Prins (2014: 14–16) describes the ‘money trusts’ e.g. J. P. Morgan’s control of 70 per cent of the steel industry in 1901. Also, John D. Rockefeller with City Bank head James Stillman, combining with Standard Oil, Union Pacific and other railroads and banks. She describes Morgan’s help to Barings (whose crisis had global repercussions). Teddy Roosevelt disliked ‘muckrakers’ – meaning a press critical of US Congress (Prins 2014). Bribes to say, the *FT*, were the ‘done thing’ in London too.

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came at a time when grass-roots small farm options lost completely. Curious to note, the Fed's 'elite' founders met secretly in 1910, hiding from press critics, to design the only other CB like the BoE, to promote Wall Street. Only 60 per cent of Americans had effective voting rights to 1970.[26]

THE AUSTRALIAN MONEY STORY

Given its early, varied capitalist phases, America joined late the two most highly *urbanised* countries with full wage labour systems, in which dependency on jobs, money and state services was total: UK and Australia. Quite civil, often decent US scholars are convinced that the USA had the first 'Post Industrial' society in around 1970, but that is 100 years too late. Polanyi and Marx stressed how the English Enclosures created landless, 'free to starve' wage labour, also the prerequisite of the Australian agribusiness-labour scheme: post industrial.

The monetary (central bank) story of Australia herein was a surprise for an Australian to find, and I have no wish to advertise its current neo-liberal, indecent political class rule and capital investment strike. Medium-sized Australia never had BoE or US Fed ambitions, yet its unusual capitalist money development is unknown in the central bank literature (or Australia today); rarely mentioned either, are Canada's or India's central banks.[27] Another excuse for my Australian case study was a vivid 2010 example of the parochialism that always 'puts the US first', in some highly influential pro-austerity economists' work. Americans Carmen Reinhardt and Kenneth

[26] See Veblen (1904); further on I discuss voting rights and how these Fed designers wore disguises to travel to their meeting. That seems to show something more than what one would expect of ruthless leaders: perhaps a fear of the democratic process, even of mockery.

[27] I only unearthed Australia's monetary history in 2013, after decades of amassing primary material on the Fed and BoE; thanks to V. J. Carroll. (At the time of writing, the right-wing Commonwealth Government had a slim majority.) The Post Industrial thesis (Bell 1976) is about employment sectors: rural, industrial and services. In the USA, small farmers were a huge (informal, part self-sufficient) rural sector, and Europe similarly with peasants, cf. UK and Australia by about 1860.

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Rogoff (R&R) presented debatable statistics on public debt to growth ratios, eagerly grasped by governments from Germany to Britain to justify more austerity.

Their survey of countries' records during the postwar years excluded Australia, Austria, Belgium, Canada and Denmark. R&R's second focus on selected years, to finger 'high debt countries', omitted Australia from 1946–50, New Zealand from 1946–9, Canada from 1946–50, former Dominion countries, from the very years that they – notably NZ – had full employment (FE), low inflation and very *high growth*.[28] This is no surprise if, in addition to R&R's 'threshold' not existing (countries with low growth tend to have higher public debt from reduced tax intakes), R&R conveniently knock out strong counter-evidence. These former Dominions, with central banks state-owned, had implemented their egalitarian traditions. In those postwar years, their rigorous low inflation: high growth/FE regimes taxed progressively to reduce inflationary trends in public debt. The result was vibrant activity with public debt used for successful long-term development. R&R's research was criticised, but such countries are dreary outliers. Austerity spread as the political fashion du jour, given that the US never *truly* produced traditions to support social democracy; elites kept union-related labour parties from developing seriously. It is far easier for US orthodoxy to knock out different countries' decent data.

However indecent it is (again), Australia's early white story is 'uncluttered' by white Canada's past feudal peasant relations (Québécois) or slavery-indentured labour (USA). The three countries had fitful, diverse federation processes. All settler countries had Indigenous peoples. Genocide was widespread in all these white

[28] Computational errors were uncovered in Reinhardt and Rogoff's "Growth in a Time of Debt" study, by less influential economists, Herndon, Ash and Pollin (2013) citing R&R's work in detail, on which I rely. NZ's real GDP growth rates to debt, of 7.7, 11.9, –9.9 and 10.8 per cent during the 1950s, did not appear; R&R only included NZ's *high debt* in 1951 when GDP was –7.6 per cent at lower growth. Other countries were allegedly cut on alphabetic grounds (!), so their statistical measure is flawed on their 'above 90 per cent debt danger' alleged threshold to 'low growth', however inadvertently.

invasions, with land stolen everywhere. On a blank-slate capitalist structure but a strong state, Australia's case shows money's perennial instability was experienced as a direct cause of white hardship, which gave rise to public debate and demands that quickly solidified across classes, sectors and political parties, for a well-designed, state-owned central bank that private banks neither wanted nor ever liked. It's a pessimistic story of egalitarian traditions and nation-building states attacked by intransigent capitalist banks. But a legacy survives in the Reserve Bank of Australia (RBA). It had fights with banks and right-wing governments – often to the latter's loss.

Primarily this example shows how cultural-political milieus make certain money decisions possible.[29] Australia became *modern* at its 1788 invasion, when Britain established a totally capitalist economy and, briefly, a military convict colony. The state was authoritarian, the UK Governor ruled by decree, but a ruling class (militia officers) formed instantly. Willing free labour was lacking. In common with other sparsely populated, huge land areas that developed to meet European industrial demand for rural products, UK officer-capitalists found that value is never added without labour. The Americas, invaded centuries earlier, used imported serfs and slaves, since (embattled) Indigenous peoples often refused. Argentina coerced peasant indentured labour but with less state monopoly of violence than that deployed in 'New South Wales' (NSW), Australia's first British name. Colonising European capitalist empires *created* markets forcibly.

Being a faraway, late starter (NZ after), Australia consisted in politically similar mixed-migrant colonies marked with disobedience

[29] To expand, the American 'post-industrial society' thesis has it starting in the 1960s, but UK and Australia were 'postindustrial' a hundred years earlier, i.e., in their very low rural and high service sector employment. The mass of US small farm employment only declined around 1930, in contrast. As Marx (*Capital* Vol. I: last section) said of Australia's UK invasion and a Lord Wakefield's scheme for South Australia, white migrant labour had to be priced out of land buying or squatting, for agribusiness to work labour and, in fact, find labour-replacing techniques.

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to British domination.[30] Resistance included mutually destructive, hugely expensive Red Coats' wars against Indigenous guerrillas;[31] also costly officers' mutinies against (early) far-sighted UK Governors; and theft of Indigenous (aka Crown) land under UK *terra nullius* laws. Proto-agribusiness capitalists squatted on land, via primitive accumulation (murder) and capital (via profiteering on selling rum 'lifted' from Sydney's UK Commissariat).[32] They brutalized convict labour (that Governors kept freeing to class relations, small farms and elite jobs). Public-private partnerships (PPPs) began with the UK 'Rum Corps' (to sarcastic wits).[33] Capitalist money was installed from the outset.

The British had no clear rationale for invasion. Settlement, mainly urban coastal, was connected to state-built roads and railroads, designed to serve vast agribusiness stations in the outback. It proved monstrously costly. Britain ceded political rights to 'responsible government' at 1856, long before Ireland.[34] Having sent out radicals, highly-skilled convicts and 'assisted' free settlers, insubordination might have been expected. It was no accident that federation

[30] The USA, Canada, New Zealand, Argentina and South Africa were other 'land rich–labour short' large-scale developers for wool, cotton, timber etc.; see Schwartz (2000: his Chapter 9) on temperate zones.

[31] Early wars against the Aboriginal peoples were one-sided, e.g. white settlers and Red Coat losses in Sydney were comparable on average to the Somme; guerrilla tactics easily beat Marines' slow-loading muskets (Denholm 1979: 27–38), which was not the case later. Britain was not the only culprit in the Americas, Africa and so on; e.g. Finland against *white* Indigenous people.

[32] Illegal 'Officer-Squatters' initially depended upon convict servile labour, but in 1807's UK Act, could not import Indians as slaves; this UK 'Rum Corps' also hired 'Native Police' to kill other Indigenous peoples. Their total number was about 800,000 pre-invasion; deaths from murder/wars were (approx.) 20,000, and from white disease and resource-loss, 120,000; to leave 200,000 by 1850 (Hunter and Carmody 2015). These experts stress chicken pox. The 2016 Census has 786,689 Australians identifying as Aboriginal (abs.gov.au).

[33] Britain's convicts enabled UK officer-capitalist agribusiness. See McLean (2013) on the early PPPs.

[34] See Dyster and Meredith (2012: their Chapter 1) on Australian free labour: convicts were freed to become architects, accountants, farmers, lawyers and educators, compared with indentured serfs (in Argentina etc.). Free migration became the large growth factor to this day. UK Treasury gave up all claims to gold and to 'Crown land' in 1852, with responsible government from 1856 (larger colonies first): Butlin (1986: 30) and Cryle (1989).

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in 1901 created the *Commonwealth* of Australia with slogans like 'Mammon or Millennial Eden'.[35] A unified, modern class-system of high wages (perennial labour shortages, and from wage legislation) and Australia-wide social movements started in no time, especially unions, feminists and chartists. The lack of deference seemed to exhaust Whitehall's Colonial Office and appalled City elites. Britain nearly by accident settled on making money from debtors forced to grovel (London assumed) and large-scale imports, and exports which fluctuated.

Not lawless, it did not have the sizable excluded populations of most settler countries. Military to early democratic authority – of the European and US 'enlightenment' – was largely obeyed. Bustling, substantial cities quickly grew, with chartists' demands met in 1855 and radical (capitalist) presses printing anything that mocked English snobbery, banker and rich *squatter* lawlessness (theft, murder of Aboriginal peoples) and pretensions to aristocracy.[36]

Most exceptional of the social democracies were demands for *state authority*, not only for justice in unequal contests over land, life chances, mooted workhouses and indentured labour, but also over *money*.[37] UK Treasury tried to control money and banks to suit the City, foolishly, nakedly. The initial convict colony quickly engaged in exports, using expedients like 'miscellaneous coins, private promissory notes … and bills on London … of the UK Commissariat or missionary societies', which led to a contrast between anything

[35] The Commonwealth was itself an English 1640s civil war slogan, and the anti-Mammon slogan is around a Rotunda in Centennial Park, Sydney.

[36] South Africa excluded 90 per cent from all rights during Apartheid. On Australian white male suffrage in 1855, see Butlin (1986: 30); cf. Canada had property-based white male British non-Catholic suffrage (so excluding Catholic Quebecois); mostly in its Confederation, 1867. Assumed groveling of Australians to the City is analysed in Butlin (1961) from records of banking letters, 1828 to 1951, between London and Sydney of what eventually became the ANZ bank. The local Bank of NSW started in 1817 (re-badged Westpac in its near-fatal 1980s).

[37] On egalitarian policies, industrial rights and nation building, Pixley (2000) cites Beatrice Webb, who saw Australia in the 1900s as 'a social laboratory'; see also Schwartz (1998). See Cryle (1989) on Queensland's radical, pro-Aboriginal, anti-squatter presses of the 1830s.

convertible to 'sterling', and the 'currency'. The latter was not convertible except at a huge price (discount). As in other colonies, the *currency* became 'an Australian unit of account', not English money. In 1822, NSW tried a local currency with a Spanish dollar standard. Whitehall terminated that, contradicting its 1821 promotion of grazier squatters (cheap wool), versus state industries, nation-building Governors and parliaments.[38]

Persistent calls arose for a state-owned central bank: the *'People's Bank'*.[39] Each Australian colonial state controlled its fiscal and borrowing policies. 'Plural' voting for the wealthy was soon banned in favour of one vote, one value in the lower houses; by 1891 women and Aboriginal people voted in one state. That became universal *white* suffrage in the Commonwealth constitution 1901, after referenda and elite, racist male-chauvinist protests.[40] Each colony owned banks and enterprises and, pre-Commonwealth, competed tirelessly in building railways, grand Town Halls, assisted migration, R&D on (freight) refrigeration, agribusiness productivity and land conservation: on cheap public credit or London advances.[41] Australia's history includes (peaceful) conflicts against elites. NZ was perhaps firmer, and Canada even more so, later, although the English excluded French Canadians for some time, and it endured UK *and* US dependency.[42] The white 'Dominions' were open international economies with tiny domestic markets: debtor-capitalist developer countries. NSW's universally despised private bankers relentlessly argued *against* a state-owned central bank of budding Labor and Town Liberal design,

[38] See Butlin (1986: 27) on sterling versus currency as a local unit of account and the Spanish dollar incident.

[39] The People's Bank idea is stressed in Butlin (1983); Quiggin (2001) and Schedvin (1992); thanks to V. J. Carroll on Butlin references (etc.).

[40] UK assumptions of elite 'responsible government' and property voting rights were quickly democratised, but the Victorian Parliament was the most recalcitrant against Indigenous and female voting rights (cf. South Australia both), see in e.g. Pixley (1998) and specific voting details in aph.gov.au.

[41] On state credit and Australian colonies' R&D, see Dyster and Meredith (2012: 70–1).

[42] See Chapters 3 and 7 on Canada; its banks primarily used Wall Street markets; on its Bankers Ramp, see Ryan-Collins (2015).

whereas US small-farmer 'populism' opposed 'Wall Street' and 'robber barons', only to lose in the design of the Fed. Australia's story reverses orthodoxy's anti-democracy.[43]

The general nineteenth-century economic problem for settler countries reliant on exports was the gold standard. As Britain slowly gained leadership over this payment system (sterling), nearly all Western Europe benefited, and 'enjoyed persistently favourable balances of trade' from investing/lending and colonising overseas with those countries that used systems of 'holding fluctuating reserves of international currency'. For the latter, such as Argentina, Australia, or the USA to 1900, their 'volatile balances of trade' under the gold standard, meant any 'persistent imbalance was corrected … by modifying interest rates, prices and incomes, to reverse the underlying causes of imbalance'.

These *distresses* and unemployment occurred in Australia early, given the vast distance and rapid growth of banks, local-owned (the first in 1817) and English-owned. Agribusiness and its city services sector of huge pastoral companies were politically dominant, unlike US small farmers versus Wall Street, but also met huge resistance from an urban civil society with advanced voting rights and trade unions. 'Circulation of gold coins was not an essential part of the gold standard', however, whereas freely convertible note issues, or 'making (national) gold coin an unlimited legal tender' were preferred practices.[44] Banks in Australia could issue their own notes, as in Canada – and faintly like the Scottish free banking system, and kept reserves (short-term sterling assets) in loans to London.[45] Perennial problems

[43] The Dominion nomenclature was disliked in Australia, which took the Commonwealth name, infuriating Whitehall etc. Orthodox theorems, say in Calomiris and Haber (2014: 298–312; 454–61), are incorrect about Australia.

[44] See Butlin (1986: 27) for both paragraphs. Argentina had an older rural system. Bruce Greenwald's unpublished paper on the USA as the 'first' service-sector economy and my counter-discussion were recorded at the 'Large-scale crisis 1929 vs 2008' conference, Ancona, Italy, Dec 2015.

[45] On note-issue and free banking, see Schedvin (1992: 5–7); this was highly restricted under UK directions and legislation, see Butlin (1986: 7–25; 26); he notes UK silver coins mainly circulated in Australia early on.

arose from banks' need to 'repress the lending enthusiasm' of their bank branches, the tendency to speculative booms and then withdrawal of lending to agribusiness during busts.[46]

Economists show in Australia's microcosm the capitalist patterns of conflict, less like Britain's industrial and service sectors so neglected by City–Treasury–BoE views. Gold was no fetter to banking sectors, save in countries inordinately reliant on overseas demand. Other countries (than the British Empire, with its vast markets of India) moved ahead from 1850 to 1900. What Australia needed was expansionary sterling *and* local currency (for local industry). Before NSW's and Victoria's gold discoveries (1851), British authorities were intransigent. Cheap food and raw materials were desired but also mobile capital seeks short-term profits, whereas anything involving sunk capital is costly. Each state (as in the USA) invested, specifically in shipping firms; infrastructure; town ports for wool, timber and leather classers; and marketing authorities. Australia was first to develop suburbs (with diverse jobs and coastal views). Skills, good health and their fixed costs give long-term returns. But the fragility of property speculation on infrastructure building (often from illicit insider knowledge of state decisions),[47] share pushing of start-up banks; of new pastoral financial companies and dubious trust firms, often English, suited the City and grazier-squatter interests.[48]

[46] See Butlin (1986: 28). This further refutes the line of Calomiris and Haber (2014) of alleged superiority of branch banks to unit banks, since branch banks were *renowned* causes of Australian busts about which, Eichengreen and Mitchener (2003) agree.

[47] We saw City neglect of British industry, whereas Europe's CBs were designed to foster industry. See Dyster and Meredith (2012); Schwartz (2000: 130–3) on rail lines. Property trading on inside knowledge was/is common with road and rail expansion everywhere.

[48] Colonial states had to rectify all the busts. See Butlin (1986: 7–25): eight banks existed before the 1851 discovery of gold: five were locally owned; (by 1860 there were 197 banks, swelling in Victoria's 1880s); English-owned banks had London head offices. Both types financed external trade. The bank branch system took off seriously after gold. On the Note Issue, the UK Acts of Incorporation and Colonial Bank Regulations prescribed it should not exceed paid-up capital, and all debts 'other than deposits should not exceed paid-up capital'. UK Treasury said post-gold amendments to such restrictions were 'quite unacceptable' (Butlin 1986: 9). Graziers (agribusiness) contracted *half* of Australian foreign debt, mostly City.

In 1825 Britain attempted to 'impose a sterling exchange standard on the entire British empire'. For NSW, this involved selling Commissariat bills for British silver coins. But British expenditure on NSW was not growing at the pace of demand for imports by the fast-growing NSW private sector. The experiment was abandoned within a decade. The gold discoveries gave Australia slight control over Britain's edicts against monetary expansion.[49]

Many players grumbled, mutually irritated, perhaps since Australia was so consistently redistributive and very wealthy. In Australia, cosmopolitan cities and busy presses created a public sphere in which not only the Irish thought of English elites less as enemies, than figures of fun. A somewhat inclusive education gave many Mary Wollstonecraft's feminism and for example Adam Smith saying it was unjust that capitalists marked down labour as a 'cost' (not dividends) when labour alone adds value to non-financial assets. More influenced with under-consumption ideas than with Ricardo or Marx insisting *ad nauseam* that bank money creation was 'fictitious' (when it was urgent), multiplier policies became common. Australia has remained in the top three wealthy countries *per capita* for 200 years with the USA and UK. Minimum wages are still better than in many countries.[50]

Before the 1851 gold finds, a bank crash and 'severe' depression occurred after a rural export boom that led to a NSW legislative 'Committee on Monetary Confusion' (how frank). It proposed a State Bank in 1843. Legislators (squatters and Town Liberals) criticised the

[49] Most British colonies resented the 'standard'; usually white ones could protest publicly. With the Australian goldfields, the City and UK Treasury lost potential gains (Butlin 1986: 28).

[50] On Adam Smith's ideas of adding value, see Collison (2002). Schumpeter (1954) thought 'A. Smith' was derivative, and Ricardo obstinate on money, aped by Marx – who in other respects was a 'top-notch economist'. In *Capital* Volume I, Marx wrote up Wakefield's South Australian (SA) scheme of pricing crown land out of reach of labour. Rowse (2015) notes under-consumption ideas influenced Labor and Town liberals also, Labor promoted state-owned enterprises to out-compete 'inevitable' capitalist corruption (Goot 2010). On Australia's consistent high wealth and redistribution, see McLean (2013); on minimum wages, see Wilson (2017).

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'avaricious and incompetent' banker crisis, not as 'fictitious capital' but a social fact.[51]

Everyone volubly loathed banks beyond the usual: In 1851, the high-grade gold fields were 'an explosive force' in Australia. For that entire decade, gold replaced wool as the chief export and sparked a battle for a Sydney Mint. The NSW government devised the Mint plan that same year. Arguments in the *Sydney Morning Herald* (*SMH)* in 1851 were, first, that a Mint would make the Gold Standard 'work', but second, with the rapidly growing population arriving for the gold rushes, a 'large increase in coin' was needed for the huge expansion of trade. The *SMH* warned of 'monetary chaos' in California after its 1849 gold discovery.[52]

Whitehall's speedy assent to an 'unprecedented' NSW state Mint seemed inexplicable.[53] The Sydney Mint was to be a branch of the Royal Mint, not to control, and it appears the BoE was not asked, since Treasury (under Gladstone) kept both it and Parliament at 'arm's length' over Australia's monetary affairs, to quell (internal) debate. The BoE Governor seemed bemused at Treasury's approval to NSW's owning and running it, saying the Sydney Mint had no merit other than 'putting a little more money into the hands of the diggers'. One can *hear* it. NSW would fund the Mint, which implied UK losing control of 'royal prerogative over coinage'. Another battle over British coins being equal legal tender with Sydney coins was won by NSW, against Whitehall's demand that Sydney's minted coins circulate in the UK and all colonies.[54]

[51] Fisher and Kent (1999: 1) note this 'severe' depression. On the NSW Commission, see Gollan (1968: 15–18). Of course, neither type of legislator was free of those attributes either.

[52] The goldfields of NSW and Victoria, in Butlin (1986: 7) who therein notes plans for responsible government were underway before gold, and were completed, save for W. Australia, by the end of the 1850s; the *SMH* is cited Butlin (1986: 28–9).

[53] Despite the then advent of far faster steam ships for mail and gold, reducing colonial insurance costs too, the Sydney Mint was the most significant, Butlin 1986: 30–1 points out. Cable was not until 1872; other Mints soon developed, but outside these Australian ones, he says, Ottawa was only allowed a mint in 1908.

[54] The mystery of Whitehall is in Butlin (1986: 30–1); there he conjectures Whitehall was scared of Californian chaos and wanted total control over the Sydney Mint. The BoE, and a Tory royalist's fulminations are cited in Butlin (1986: 48; also 29, 32–3): Formal letters

Only banks opposed the Sydney Mint plan, to keep their gold dealing. On the goldfields in 'popular thinking, the local price of raw gold, and the exploitation of diggers by gold-buyers and banks, came to be seen as central points in the mint question'. The Eureka Stockade rebellion at one of Victoria's minefields broke out in 1854 (a rare uprising in Australia's white history), partly for the Mint. And, despite banks' 'specious' arguments against it, exchange rate fluctuations were much reduced once the Sydney Mint started operating in 1855 whereas, since 1788, currency – as notes and coins – and sterling, conflicted.[55]

With the Mint, Australia's money supply (bank notes and Sydney coins) expanded to great effect, while Europeans saw the gold influx as sufficient to give up silver (US small farmers did not).[56] Post-gold, English consortiums (usually with aristocrats on the Boards for alleged prestige to the trade in debt) were as keen move into Australian banking businesses as locals. After the UK Treasury's disapproval of various Australian-owned bank charters pre-gold, it 'rapidly processed' charters for British banks to get into the gold boom. It marked the London troika's disinterest in declining UK industry, too.[57] Chances for the City and distressed aristocrats were rosier elsewhere - too much so for banking's self-restraint. The number of

to and fro are cited between the Colonial Office and the Governor under NSW Parliament orders; UK Treasury finally lost control at least by 1855 when NSW gained responsible government (Butlin 1986: 48–50). As well, the Royal Mint was then in chaos, trying to get rid of titled sinecures (cronies), argues Butlin (1986: 31).

55 Sydney's Mint was more trustworthy (than banks or the Royal Mint), and, what UK *and* NSW wanted, at NSW's cost. The diggers' quest for the Mint is in Butlin 1986: 32; Eureka was ostensibly about Victorian state charges on diggers. In Australia, banks gave specious arguments, according to Butlin throughout, because they lost control of gold deals to the state (of NSW), not only their exploiting of diggers.

56 See Dyster and Meredith (2012: 42, 57) and Schumpeter (1954) also notes that the 'bi-metallism' of, say, France, acknowledged that the dearth-to-rush of gold was destabilising and that keeping both silver and gold supplies might maintain some 'stability'. The full gold standard destroyed US small farmers' effective economic and political clout (Galbraith 1975b; Gollan 1968: 44–5).

57 On the 'favoured' UK banks, a detail I like, see Butlin (1986: 7, 12); on Board-stacking with dukes, marquises and baronets: V. J. Carroll (personal communication, 2015); also Cannon (2013). The case further proves Ingham's thesis (1984), since global industrial competition was outpacing the UK's.

banks, the branching, and shadow-banks in Australia swelled (to well over Canada's) but 'gold' was less a question than bank note issue.[58]

This case upends today's naïve monetarist 'histories'. Social movements turned to governments to correct the excesses of banks and rapacious agribusinesses. Squatters (graziers) used barefaced tactics, 'socialising their losses and capitalising their gains' (a typical phrase in muckraking) and profiteered from inside knowledge. A *populism of elites* supported UK control. Town Liberals, agrarian socialists, even the Country Party, often agreed with the growing Labor Party, which aimed to introduce democracy to the labour market and over the money markets and banks. The horror was bank money inflation, perhaps from Australia's high living standards since 1788. Several credit booms, deflations and depressions were not pinpricks in a life of grinding poverty to Australians (except the Indigenous peoples) but electorally shocking.

So it came to pass, that NSW *habitually* used effective demand policies and money supply expansion to counter depression from sudden 'floods/droughts' of international capital and speculation. (The multiplier, stressing services, operated long before Keynes.)[59] These were purposefully used in a *counter-cyclical role* as investment 'engines' to foster recovery, with programmes of public works on adequate pay rates to reduce hardship and prevent market stagnation. If public policy favoured rural productivity (labour-replacing), boosting export and service sectors for coastal cities' infrastructure created the jobs and helped factories. NSW tended to lead. Colonial government securities (bonds) were readily available by the 1860s

[58] Canada had forty branch banks between 1870 and 1914 (Ryan-Collins 2015: 17); Australia had 197 in 1860, and more in 1880. In Canada, a far older white settlement, banks served a mainly lumber-agricultural economy, highly stable in that period. Ryan-Collins cites 18,000 unit banks in 1890 in the USA, but Australia had a worse crash in 1890, even to Eichengreen the doyen (Eichengreen and Mitchener 2003), than in the rich also far older USA.

[59] See Dyster and Meredith 2012 on 'droughts' of hot money, and my Chapters 3 and 4 for details. A decade before Keynes, Australian economist L. F. Giblin codified the multiplier impact of production of local services (universities, hospitals, schools etc.), which were neither importable or exportable (then), cited in Coleman, Cornish and Hagger (2006).

to most private savings banks. Governments also devised their own state-run models of the British post office savings banks (NSW's savings bank in 1832) for a 'steady flow of funds at low interest' in securities, and for states' avid 'borrowing for the public works' demanded of a rising population and recurring 'financial crises'. They spread to other colonies to meet 'government financial exigencies' and also made *safe* 'savings bank facilities available widely', with government savings banks by the 1870s 'sources of loan funds for governments'.[60] Multiplier policies were perhaps a precedent in Australia although not pork barrelling.

Laissez faire myths were publicly implausible. Excesses of mobile capital drowned Australia in the 1880s and parched it in the 1890s; so-called favours to Australia in the 1920s switched to demands that foreign banks' profitable advances be remitted immediately in 1930.[61] NSW Treasury learned caution from its 1876–80 inflation (and contraction), to supervise strictly the massive growth of building societies and land banks.[62] Pompous Victorian banks were indisputably the cause of the major 1880s–90s boom and bust, although miscreants liked to blame Barings' crash. In global comparisons, this reckless credit boom is to this day called 'dramatic'.[63]

[60] On NSW's 'effective demand' and safe local banks, see Dyster and Meredith (2012: 70–1, 137) and Butlin (1986: 69, 71, 76, 85). Victoria, Queensland (QLD), Tasmania and South Australia (SA) became separate, 'responsible governments' during the 1850s with NSW; Western Australia (WA) three decades later. Northern Territory and ACT (Canberra) are still not states.

[61] See Dyster and Meredith (2012: 356) on 'surges' of mobile capital; also, Dyster and Meredith (2012: 42) on the BoE/English banks that controlled the growing outflow of global funds (hot money) from 1890 to 1914.

[62] See Cannon (2013: 119) on the 1878 NSW inflation: £8 million of UK investment; £12 million from NSW selling more Crown land; the 1884–5 drought bankrupted graziers; that bust made NSW Treasury tighten bank controls, unlike in Marvelous Melbourne.

[63] On the boom/bust, see Cannon's racy text on bank corruption and ostentatious buildings (Cannon 2013, in its fourth edition since 1966). Pastoral expansion onto marginal land is always fragile; Barings' collapse was minor to Melbourne's rout. See Gollan (1968: 29) on careless banks; see Fisher and Kent (1999: 32), of the RBA, on bank branches, managers' incompetence, dodgy building societies and vast losses to depositors – so 'dramatic' that for Eichengreen and Mitchener (2003: 34) it is singled out in their extensive survey of major global credit booms.

A Melbourne land and grandiose building boom, over-investment in the pastoral industry; trade and price fluctuations brought a far longer depression in Australia than elsewhere.[64]

During this calamitous bust, over half of all Australian deposits were suspended and over 61 per cent of all note issue ceased to be 'freely negotiable', but that varied in each colony; New Zealand decided not to join the Commonwealth in consequence. The 1880s' land boom had 'disregarded all caution', blindly assumed rising prices, and 'crumpled' with the banks, after a vast expansion of bank branches with low 'internal control', fraudulent practices and 'fringe' banks. British-owned banks were particularly blithe in their advances, buoyed on a mass of English and Scottish deposits in these banks that paid double the Consol rate. Public derision of the banks' imposed depression barely lifted. 'The share capital of some banks bore the scars of their 1890s reconstruction right up to the 1980s, when the Bank of NSW put a final one out of its misery'. Banking policies, furious topics in the labour, liberal 'protectionist' and 'free trade' agribusiness-socialist movements, left banks cautious for 100 years, although rarely benign politically.[65]

Even before NSW Labor joined a quasi-coalition government in 1891, it aimed for a national, state-owned central bank.[66] Of Victoria, Butlin said, 'the sudden and complete loss of spending power on the

[64] It was longer than Australia's Great Depression, 1930s. See Dyster and Meredith (1990) on Argentina's recovery well before Australia, and McLean (2013: Chapter 7), on the length of Australia's 1890s depression.

[65] Gollan (1968) discusses the fraud too; on the banks' 1980s misery, V. J. Carroll (email, 2015). The 1890 crash's immensity in global comparisons, is ignored in Calomiris (2013), who prefers 'bank branching', whereas in Australia's 1880s they were utterly reckless! Australia's 1930 Bankers Ramp is in Chapter 3.

[66] On Labor bank plans, see Edwards (2005: 79). See Butlin (1961: 302) on understating averages, e.g. Tasmania not hit by fraud; on the 1890s bailouts, which to many was 'financial legerdemain', see Butlin (1961: 302); Isaac Isaacs, then Victorian 1890s Solicitor-General and MP, charged one bank and, after (gentile) MPs refused his lawsuit, resigned: Gollan (1968: 39–41). Returning with a larger majority a month after (no surprise), Isaacs later became a Governor-General. NSW Protectionist MPs needed the Australian Labor Party (ALP), which saw tariff as a tax on the poorest (until ALP MPs later bargained for fair wage legislation in return).

business community and on private lives' in three states, left a long legacy:

> Suspicion of financial institutions had long been endemic in Australian thinking, becoming active at times of economic stress; but a tradition of unscrupulous motives and maleficent policy as the normal characteristics of 'the banks' … a major strand in twentieth century politics, owes much to this apparently obvious deduction: in the 'nineties [1890s] the banks' *escape by reconstruction* was made at the expense of their customers.[67]

In the banks' reconstruction in Melbourne, when that avoided bankruptcy, imposed creditor or shareholder losses, depositors were paid, at worst, a few pennies in the pound to, at best, seven shillings and six pence, if they withdrew rather than have deposits 'suspended', and wait years for mergers or better times. Note issue was no longer freely negotiable. British critics enjoyed castigating Victorian state debts, ignoring profligate (UK) private hysteria, Barings' collapse and marked differences to older colonies (Quebec was near feudal, India the ancient 'jewel'). But the pitifully few radical, uncorrupted MPs could not stem 1890s' Victorian Parliament excesses and ersatz *laissez faire* bank policies, since MPs were not paid (NSW initiated a MP allowance in 1889). Both Victorian Houses were stacked with bankers and squatters. One State Premier, mired in milking depositors' funds in the dubious bank he also headed, rushed a Voluntary Liquidation Act through, to prevent his and other Melbourne companies from compulsory liquidation and public court examination. He thereupon appointed himself Agent General in London, to which he 'fled'. Cartoonists were in hot demand.[68]

[67] Butlin (1961: 302, my emphasis), also cited in Gollan (1968: 27). In comparative policy literature, the cliché Australia was as neoliberal as Anglo-America, is incorrect. NZ and Australia, to social policy experts, had 'Wage Earners Welfare States'; plus, it put no strain on state budgets. On Australian wealth, we saw McLean (2013) and see Schwartz (1998; 2005), on social democratic aspects in Australia.

[68] See for the fraud in so-called reconstruction to cartoons Cannon (2013: 33, 49–50, 62–3, 189) and Butlin (1961: 302), also on British hypocrisy.

This scandal of 'reconstruction' is worth noting for the GFC fallout and on to Europe (in Chapter 7). And, like 1890s Britain and the USA, the Melbourne public was shocked to find 'the Elect', and Anglicans, had committed banking frauds. Ostensibly religious capitalists aimed to squash male workers' freedoms, and instil virtues of thrift, savings and trust in banks.[69] Calvinist and 'Temperance' religiosity did not endure its 'shameful controversies' thereafter.

Unlike Victoria, NSW Parliamentary reforms had earlier enabled the Labor Party to stand candidates to voter acclaim. In NSW's distress of 1892, not comparable to Victoria's, NSW Premier Dibbs, allied with Australian Labor Party (ALP) MPs, issued a proclamation to prevent a run that began on the NSW Government Savings Bank, stating that NSW would guarantee that bank's deposits. It did not stop Melbourne banks from dragging down their Sydney 'connections' who 'refused to make bank notes a first charge upon bank assets'. Dibbs declared bank notes legal tender anyway.[70]

MODEST MODELS, SOMEWHAT LESS ELITE

This Black Swan case destroys orthodox efforts to find innocent banks. Australians endured years of bank rackets and foolishness, aided handsomely by ruling elites of agribusiness and politicians with nefarious connections to the City and Whitehall. Britain's designs fooled few. Early political coalitions were fluid; their 'counter-cyclical' policies had wide support. The ALP and the unions opposed corruption and, understanding money so well, later aimed to prevent bank *money and asset* inflation, than provide a lender of last resort (let alone to repeat the 1890s 'reconstruction').[71] In an 1893 NSW Royal

[69] On a Temperance hotel of a (dubious) capitalist, see Cannon (2013: 367–9). See also of the many *public embarrassments* the 'Elect' faced: in 1894, a Rev. P. J. Murdoch, father of Sir Keith, grandfather of Rupert, suggested that a home for destitute children in Melbourne, run by a Presbyterian woman, should give preference to, and feed only Presbyterian children; she refused.

[70] Cannon suggests NSW was somewhat 'inoculated' from Victoria's *laissez faire*, including he says (2013: 119 – 128) by Dibbs.

[71] Australia's Black Swan is not a counterfactual (see Chapter 3) but *counter-evidence* (the idea that 'all swans are white' is falsified); Bernanke (2000: 95) mentions a recent populist,

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Commission, a national bank proposal wanted all private banks to invest in government securities by law, to be held in reserves, and to nationalise the note issue.[72]

A novel central bank model grew fitfully,[73] earlier than Canada, NZ and India in the 1930s–40s. These states created distinct CB models too. People's well-being demanded they all gain national monetary sovereignty from the UK or USA: a thankless task. After the 1934 BoC Act, Canada's Liberals declared a rebellion against US Fed functions and BoE war finance; the BoC would not be a 'banker to the banks' but to government, although to 1938, it was a private share-ownership (BoE) model.[74] Stricter, given the colossal 1890s' crash, and older, consensual aims for prevention, Australian Labor wanted a *strong, intrusive* State-owned central bank to work against banking's pro-cyclical habits of lending aggressively in a boom and contracting harshly in depression. The ALP proposed currency and bank reforms to bring 'profound social changes to the advantage of workers'. Banks could be generative, but instead proved recalcitrant. From 1901 at federation, before Labor took majority office in 1910, private banks told short-lived Commonwealth governments that under no circumstances would they accept a Canadian system. Canada's Treasury required banks to hold 40 per cent cash reserves in government notes

not Karl Popper. Calomiris and Haber (2014) insist that all bank fragility is from populist (non-elite!) demands. They finger US small farmers, and pose a counterfactual on French-Canadian ('peasants'), arguing that had the Québécois been early included, politically, they "would have" wanted unit banks – something which Calomiris and Haber cannot prove or disprove since French-Canadians could not vote then. They are incorrect in seeking support for their flimsy (anti-democratic) counterfactual in Australia, given its bank branches and the 'populist elite' 1890s' crash.

72 See Butlin (1983: 122) on the NSW Commission of 1893; the City and Whitehall loathed all this, but with 1901 federation, the note issue was crucial across parties.

73 'Fitful' is in Coleman et al. (2006: 229), citing L. F. Giblin's Commonwealth Bank of Australia (CBA) history. Inquiries/debates on the 1890 crash *and* the Constitutional conventions for federation (1901) consumed the 1890s (Gollan 1968: 72).

74 On the ex-colonies, India was not independent until 1947, and on Canada, see Ryan-Collins (2015: 4, 16, 17).

(so lacking in Melbourne's disaster), that may account for Canada's bank stability, given similar bank note issue and lacking a central bank.[75]

But Australian banks *knew* that 1901 federation would entail legislation over banks. Despised, and more concentrated after their 1890s disgrace of reckless note issues, banks wanted government excluded yet feared all politicians; probably why they dared not *demand* lender of last resort (in a CB), nor dared protest losing their former Note Issue rights.[76] Since they gained 'more criticism than profit', banks accepted that federation would involve Treasury commanding their note issues – it was a handy public 'free loan' to the Commonwealth. Andrew Fisher's ALP majority government passed a Note Issue Act in 1910. Fisher also engaged in modest (specified) debt financing for public infrastructure, which banks complained 'treated the note issue reserves as a convenient fund to raid when in need'. To mollify alleged 'wild experiments in paper money', in 1911 a cautious state-owned Commonwealth Bank of Australia (CBA) was founded under Fisher (that is, not a central bank but a *public competitor* to banks).[77] Private banks whinged about the Bank ever after, but states

[75] In Gollan (1968: 70), and Schedvin (1992: 46) described fairly Labor's counter-cyclical aims. Gollan cites well-informed ALP debates (1968: 74; 48) such as using Bagehot's BoE critiques as a model; or how the US demonetising of silver in 1873 meant the US gold-based dollar rose in value (but US small farm remedies could suggest either a quantity theory: dig more silver too, or preferably, a managed currency: 'greenbacks'). As well, Gollan cites bank resistance to any state control; how political opponents said the ALP and/or workers were 'unfitted' and unable to know banking's 'mysteries' (1968: 60; 84); banks' refusal of the Canadian system is in Gollan (1968: 75–6). Canada's high reserve requirement is *counter-evidence* to Calomiris (2013).

[76] See Gollan (1968: 60; 90–1) on unanimity in the new Commonwealth parliament against banks. Another aspect of the BoE model, Lender of Last Resort (LOLR) had 'political complications' to Schedvin (1992: 54). I suspect Schedvin meant the scandal of 'reconstruction' in the Melbourne crash of 1893. Discounting of treasury bills (at a rate for LOLR to work) was not until June 1931; cf. Norges Bank was LOLR by 1890, with a similar export economy; see Ugolini (2011).

[77] See Butlin, on 'more criticism' and a 'free loan' instead of to banks (1961: 330, 347–50), who therein argued that parliamentary CBA debates were not very contentious, nor were the Note Issue 'raid' or 'paper money' fulminations linked to bankers' carping about Treasury's Note Issues to be held at 25 per cent of gold reserves. Prime Minister Fisher ignored the carping to build railways and defence (WWI). The Notes were Australia's legal tender, although if presented to Treasury were exchangeable for gold then, but not later (Gollan 1986:86).

had major tax powers (to 1942) and already owned savings banks for 'cheap' loans and securities for public finance. Monetary expansion/contraction already had fruitful remedies.[78]

Labor's aim of the 'People's Bank' started with a state 'monopoly' of banking in 1911, to be gained not by nationalising banks but by founding a competitive (state-owned) trading bank that, Labor alleged, would improve, even drive out private ones. The Bank took two decades to become a central bank despite such old demands, and states' regular use of the multiplier.[79] Its initial function was to undertake commercial or trading banking and to run the Commonwealth's business. This alone was contentious for capitalist banking interests – their dubious refrain, *ad nauseam*, was that a non-private yet profitable bank made them face unfair competition. During WWI, the CBA's London branch manager said he faced 'repugnance' to the Commonwealth Bank from the 'monied interests in the City', and its borrowing from the City was not helped 'politically' by UK Labour's keen interest in its state-ownership.[80]

In sum, powerful threats and strikes of the major finance centre and currency hegemon of the day always causes difficulties for all countries and are hard to separate from domestic questions. Australia's case, purely capitalist through Britain's invasion and total land theft, with unions able to meet on relatively fair terms with

[78] Ironically, in the 1914 election, conservatives campaigned (and sadly lost) for the Note Issue to be *included* in the CBA Act. Bankruptcy laws, bills of exchange and promissory notes would be uniform by general consent (one difference from the EMU of 2001; see Chapter 7). On that, and savings banks, see Butlin (1961: 352) and Schedvin (1992: 21–2).

[79] Not-for-*commercial*-profit meant the profits went to one shareholder, the Commonwealth. See Fisher and Kent (1999: 14–18) on the 1880s–90s savings banks in colonial states, which were also customers' 'safe havens' during the 1893 crash; on CBA's competition aim, see Gollan (1968: 57). Decades for a CB were bank and right-wing opposition; thus, the 1910 Notes Bill faced hysteria including snobbery about the hygiene of Notes used in the 'slums', and the 1911 CBA innovation aroused 'bitter' and 'intense partisan feelings' about, say, the manipulation of banking by 'John Fat Esq.' said Gollan (1968: 92–4).

[80] Bank whining (Butlin 1983) and detail, Chapter 4. A London manager to his CBA Governor in Sydney during WWI, cited by Gollan (1968: 150–3). The Bank came to prominence in WWI. War and postwar debts preoccupied state and Commonwealth governments (Gollan 1968: 128–45).

large-scale employers, demonstrates the following. 'State-capitalist money' is the primary mover for good or ill, for economic activity or stagnation. Well understood in that context, the Commonwealth state (also NZ's) that democratised quite early had a role in taming this much-needed if critical money.

Eventually, the 'upstart' central bank became a stern Commonwealth Government's and banks' banker to work against deflationary and mostly inflationary tendencies of private banks and states – successfully, yet banks and Anti-Labor political forces fought it bitterly and decades later, mostly won (by 1960). Immense difficulties in many countries, also from the peak money-centres, are explored in Chapters 3 and 4. This case study confirms that even with social forces aiming to *tame capitalism* peacefully with a democratically controlled central bank, these driving factors rarely survive unchanged.

The logic and social justice that may appear in monetary policy can easily turn into the harsh opposite when state, financial and economic forces combine to reverse them. Control over the production of money is the major conflict that constrains central bank authority over money. Central banks with social justice mandates will mostly end in cognitive and emotional dissonance in balancing policies between the relative strengths of governments and of financial sectors, global and local. Price stability and FE were achieved in many OECD countries in the 1945–70s era, which had never been seen before. That ended by about 1980, although Sweden was the longest standout for everyone able and willing to work. Note also that current employment statistics count as 'employed' anyone who laboured for pay for an hour in the reference week. That is not a 'job'.

Since the logic of the full employment (FE) period is so rarely analysed – not even after the GFC and its further inequalities – a brief discussion is in order. It is a 'standard' by which the capacities of central banks, their policies and operations, are assessed in this book. The logic cannot rest on monetary policy alone, but must combine with fiscal policy openly and, above all, broad democratic social support.[81] Unpleasant or optimistic situations are therefore the running motif in the book. Far from orthodox ideas of a thing-like economy and of central bank techniques as a slow 'evolution', the book takes a different tack. It attempts to look at social *contexts* of central banks, since the advent of some democratic norms, with this undemocratic, mysterious, *quasi-global* arena of money creation of states and of financial institutions.

CENTRAL BANKING'S COGNITIVE AND EMOTIONAL DISSONANCES

'Dissonance' is another important concept running through the book. I relate it to new democratic processes and to central banks' typical, recurring functions. These are, in brief, that central banks can easily induce a recession and great hardship on the various inflations thrown up from social or literal (war) conflicts, to the benefit of banks and *rentiers,* but can rarely specify war financing methods (in Chapter 2); likewise, they perennially find it *difficult* to control bank money (see Chapter 3). As for getting out of Depression, they cannot do much but 'reflate' (to deflate *more* is disastrous): this refers to their interest rate policies (cheap or dear money). For ameliorating Depressions, CBs can do little but support and combine with the sources needed for FE and social investment, which have only been seen once (see Chapter 4). Later chapters show how that ended in the 1970s when socially-useful private bank money switched to reckless money creation. Chapter 9 worries that if this is uncontrollable with democratic procedures further abused, CBs might best seek the absurd: to do their best under whatever bleak cards they are dealt.

The concept of 'dissonance' under FE meant that CBs must avoid inflations, but not deflate into depression. Dissonance arose

[81] A well-known macabre joke that emerged during Wall Street's great 1929 Crash put the problem of inflation-deflation well. If central banks only use rate changes, they are 'pulling a string' with terrible incalculable results like depression, but one can't 'push a string' at all, to get out of deflation. Often fiscal policy is better equipped (and other institutional mechanisms) for both problems.

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when they deflated to increase unemployment rates. It is not to claim the 1945–70 era was perfect (!), just to stress FE had never existed before and, after 1975, decent jobs dwindled. However, central bankers now know what is possible and desirable *logically and ethically*, if impossible for them alone to achieve. In practice, the 1945 FE era did not welcome women – half the population; so, jobless rates excluded 'discouraged workers', as women and others were in fact. They didn't count. Given that great leeway for the authorities and employers, and, in many democracies, segmented discriminatory markets of low-paid casual workers, in hindsight it is puzzling that FE created such a *backlash* – without underlying anti-democratic forces. But thereupon, cognitive and emotional dissonances set in (see Chapter 6).

Second, FE did not end for over determined reasons insisted on by (some) central bank advisers (e.g. the mythical 'Philips curve', in Chapter 6, was a tall story) or allegedly shocking wage demands alone. Lacking any designer of harsh policy, old financial patterns reappeared, yet under near irreversible changes (oligopolies; urban life; nuclear war states) and (reversible) precarious democratic processes. Postwar social mobility of male FE, open universal education, pensions, often with security of health systems and cash benefits (neither universal in the USA) were quite contrary to the severe contractions after WWI (see Chapter 2). The 1920 reversion to deflationary austerity, an obliterated public scandal, and banks and central banks imposing further austerity in the deeply depressed early 1930s, even in countries that remained democratic (see Chapter 3), resulted in capitalism's near-collapse and World War II. In the 1940s–50s after such a terrible era, fairer policies tempered money elites' resentments at so-called upstarts and unions desiring money as well (in Chapter 4) under always-weak democracies. These upstarts were not all white or male. Not that women and blacks ever ran the show, but life-chances slowly improved until the 1970s. FE was thereupon lost and the dual remits of two central banks barely applied, least of all in the Fed: a cognitive or legal dissonance (see Chapter 5).[82] William Greider calls Fed Chair Paul Volcker's drastic contraction starting on 6 October 1979 'a behavior modification' over the entire USA: A 'pact with the devil' formed against Democrat President Jimmy Carter (and many others).[83]

Third, policies for FE, minorities, and female majorities are not luxury irrelevancies to central banks, as some assume. Dissonances first arose after normative and practical constraints on bank money were abolished. This is because central banks (and their states) require – in logic, democratic and ethical considerations – FE for peaceful social integration of varied lives and a tangible sense of citizenship; not bank lending to socially useless asset deals. Central banks know but (often) publicly repress how harsh policies give rise to stigma, inability to make ends meet, social disintegration, violence, and costs on trustworthy, state money in rising private debt and crises.[84] Elites grabbed chances to disparage those who desire money to work with *pay*, security and work-hours of their choice. Meantime, elites claim their 'rights' to obsequious workers and servants, to tax minimisation, to unheard-of wealth: illogical for a CB. These coalitions of interest groups perfected the art of whining. Despite forty people searching for each vacancy, abuse of dole bludgers or cadgers became tabloid news and further disgraces everywhere. US policy added to the illiberal meanness of 'food stamps'. Implementing the vote for blacks caused outrage: US Fed Chair Arthur Burns said he was 'anguished' in 1979 (the year new Chair Volcker crushed FE). Really?

[82] Anti-democratic forces, FE defenders, bosses, banks and states did not 'design' the post-1970s outcome inflicted on so many, though CBs were flattened by the Phillips 'invention' (myth), see Chapter 6. CB literature exaggerates the shock of 1970s 'stagflation' we see, whereas I stress the entire 1914–45 era was truly frightful. Cognitive dissonance: a simple way of putting it: a man can say he believes in gender equality, but his practices belie his beliefs, his emotions in favour of women's rights, or for *even* legal restraints on violence.

[83] See Greider (1987), including his Chapters 3 and 4 titles cited. (He gives copious evidence on Nixon's destructive role, we see in my Chapter 5.) Volcker knew he was causing a recession; he masked it publicly, spoke of 'wage deceleration', yet did not support banking's new freedoms. Greenspan did; see my Chapter 7.

[84] The Nixon-Burns period was crucial, but Wall Street went global from the 1950s (see Chapter 5). See Table 8.1 on bank liabilities.

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> As the income maintenance programs established by government were liberalized, [Burns claimed] incentives to work tended to diminish. Some individuals, both young and old, found it agreeable to live much of the time off unemployment insurance, food stamps, and welfare checks.

Chairing that meeting, the former Chair, McChesney Martin thanked his Fed successor for stressing

> … the psychology of inflation and the fact which we are all aware of, namely, that *money is a social phenomenon*, and a great deal depends on what people think it is or what they think it ought to be.[85]

Who had a clean conscience? Martin had a social analysis of money whereas Burns resorted to abusing the insecure and jobless he *created*. By the 1970s many more women were actively seeking work for money; this increased consumer demand and, in downturns, increased formal jobless rates, and more child poverty. 'Stagflation' as Burns (or CB historian Curzio Giannini) had it,[86] was a term that in fact combined harsh monetary policy against jobs and wages, with price-wage and asset inflations, to deny those new chances for half the population: women; and also, US blacks who had escaped indentured labour somewhat – black women most precariously. Women also tended to work in the growing service sector; Congress attacks on 'black mothers' living (how shabby) on food stamps grew vicious.[87] The service sector still dumbfounds central banks since its productivity cannot be 'counted'. Pathetic metaphors – like the incidence of what Keynesians called 'hysteresis' (note the sexism), meaning skill loss, or the FE term 'lubrication', a time for re-skilling for new

[85] Burns et al. (1979: 14) (just retired to Volcker) and Martin, Burn's predecessor, quoted from Burns et al. (1979: 26, my emphasis). Burns 'not afraid of prosperity' too, was a stab against Martin's sternness to banks. See Chapter 5.

[86] Stagflation was the cliché of the 1970s with exaggerated carping; notably Giannini (2011) argued it was 'as bad' as the 1930s.

[87] On 'black mothers' and southern white senators – 'who will iron my shirts?' – see Pixley (1993). Anti-food stamp campaigns aimed to force labour to drop its price.

jobs – were excluded later for the 'Philips Curve myth' (see Chapter 6). After being told there was 'no such thing as society', this instrumental masking lexicon of 'hysteresis' vanished. Instead, recourse to household and consumer debt rose as unemployment rose, inflation dropped as wages declined and unions were crushed: elites would 'part pay – part lend' to workers. This entailed illogical, unsustainable household debt.[88] Central banks' denouement beyond the GFC is in Chapters 8 and 9.

Apart from welcoming young people into the adult world or running the dangers of millions of despairing (indebted) people, FE offers instrumental (logical) advantages to the authorities – now a cognitive dissonance in central banks. Milton Friedman's view of FE is hardly worth debating, save monetarism's 1980s onwards impact on central banks, which mostly insisted (again) money was 'neutral'.[89] Another idea he quietly dropped after harsh measures succeeded was a negative income proposed during the height of the 1960s–70s US Civil Rights disputes. Nixon nearly got it through (desperate for popularity).[90] States will never give away money already taxed (HPM) to the able-bodied: even *decent* treasuries need them to work (usefully) for taxable pay. Equally, non-monetarist central bankers rarely touch 'helicopter money' (in Chapter 8). This point is lost on the well intentioned who propose a similar 'basic income'. People do not want 'sit down' money, as Indigenous Australians dismiss it, rather a sense of social purpose and shared citizenship.[91]

Budget deficits always rise when jobs collapse, even in the absence of unemployment benefits (in the USA), because of loss of

[88] This is not to denigrate re-skilling, only the terms. Margaret Thatcher's infamous denial of 'society'. On part lend/part pay, see Palma (2009: 858); its lack of logic did worry some central bankers.

[89] Inflation of money's value hurts rentiers most, and see McChesney Martin's methods, showing money is always political, in Chapter 5.

[90] See Craig Freedman (2007), on 'dropped'. Friedman's monetarist ideas of 'negative income' herein draws on Pixley (1993).

[91] HPM is high-powered (state) money, and validating it is via taxes on labour market earned wages and incomes, and on *rentiers*, if not tax evading unearned income. Basic income plans are reported daily; little on why they won't happen.

income tax revenue, and consumer taxes drop from decline in effective demand. Prison expenses have risen sharply, although FE is far *cheaper*: the US shamelessly locks up a quarter of the world's prisoners.[92] The authorities have *logical* interests in FE for full wage-labour societies, unlike employers and financial elites, basking conveniently with no dissonance.

Instrumental interests of producers (employers), banks and Treasuries do however exist in renewed generations of consumers, debtors, workers and taxpayers. Mass migration on the cheap (Gastarbeiter from Turkey or Hispanics to the USA and so on) has extra bad faith – disaffection, poverty and divisiveness.[93] Elites retain a feudal delusion that people will provide a replacement population without modern FE and services. In Great Depressions, of 1930s, and the 1890s when birth control was widely used, populations declined rapidly. There is no hope for children in adults' futures; in other words, people subsisting on wages-only cannot include parenthood in their lives, *and* society suffers. The French, on a nakedly pro-natal drive after the huge losses of the 1871 Franco-Prussian war, provided free childcare to unmarried and married mothers, not mere propaganda. Just in time, sadly, for that new generation to become WWI's cannon fodder, and women to give cheap labour until sent home after both world wars. Only Scandinavia followed very soon with childcare. Most rich countries took decades. Corporations need new workforces and consumers; society its continuation.

Inter-generational debates carp illogically against an ageing population less supported by new generations of taxpayer-workers; pro-war, anti-abortion double standards are back. Many elderly comprise women also most in poverty. *What do central bankers think?* Well, Gary Becker of the Chicago School of Friedman's time sought

[92] On US prisons' take-off (1970s: no surprise), see Western (2006). US benefits depend on being previously employed and are short-term.

[93] However, the full UK citizen rights of West Indians and Pakistanis migrating to Britain did not improve their plight much either, as seen to this day; Australia has recently descended to this too.

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an economic argument for locking women to unpaid domestic labour and sole caring. He only improved orthodoxy's classing of households as consumption sites, a 'grazing on kitchen floor' model, with a 'small factory' model. His 'household utility function' is incoherent; he relies on a circular line that lower female wages cause women's domestic commitment that create lower wages. It is apologetic. Worse, children are commodities produced in this factory purely as a choice. The 'Demographic transition' is ignored: in societies of wage labourers, beloved children are *personal* financial liabilities and our collective future.[94]

With no empirical economic argument to justify female deprivation and submission to 'century of the child' moralism (worse for non-white women), the authorities copied Becker (ignoring other economists like Hyman Minsky) in scotching 1970s feminist debates. 'Money passing hands' (GDP) and its 'sound value' (CPI) *versus* social security spending, progressive taxes and jobs, are the main (narrow) counted indicators. Unpaid labour has enormous economic value, uncounted, while firms, and lack of pre-school and aged care provisions pass on more tasks; credit raters ignore it. This is not 'informal cash economic activity' that evades tax; it is not paid at all, yet it raises living standards and adds value. Double standards abound: grandparents often make parents' paid work possible, yet they are hounded; the unpaid labour of making a meal nutritious needs purchasing power to buy kitchen fixed capital and fresh produce. Taxes (e.g. VAT) are imposed on people surviving (just, but in housing?), in reciprocal arrangements (maybe) – which reduces effective demand and domestic harmony. The USA is consistently low on UN scores

[94] Australia's birth rate dropped savagely in 1890; Italy's and Japan's are now the lowest to a low OECD base. Household consumers do not eat raw potatoes. Utility is 'individual', but Becker has a Head *mysteriously* called 'M' and another adult 'F'. Becker assumes resources are pooled, altruistically, as if F maximised the head M's 'preference function'. In sum, this reduces biology to destiny; ignores power differentials, foregone earnings in care, M's exit threats; and extols 'skills' e.g. managing garbage. Children are individually *and* collectively vital in all other social-economic formations (feudal, hunter-gatherer etc.), hence the fallacy of composition in modernity. The references and self-citations are in Bittman and Pixley (1997: 174–209).

of OECD states' support, decent wages, housing and health. But this is all in the realm of logic and decent institutions.

MONEY'S LOGIC WITH FULL EMPLOYMENT

However, to recognise in *logic* a FE policy of social and democratic integration – jobs, 'value adding', decent security, services and regeneration – one can use the 'taxes drive state money' argument about High Powered Money (HPM) that the population of able-bodied must be employed taxpayers because they are vital to servicing or retiring state debts and to (financially) supporting their personal dependants not capable of taxable work. Without pensions, low-wage adults are tormented about frail parents' needs. Central banks (*cognitively*) measure how elites pass on costs of responsibility for money.[95] One can combine this *instrumental* logic for FE (i.e. policies to stop CBs' savage deflations) – fostered via public spending on a high-quality 'working' economy – with the fact that banks compete via their privately issued debt to produce money, too: Bank balances are in Tables 1.1 and 1.2. In later CB public talk that avoids how all money is debt (even US Fed Chair Bernanke), crises are allegedly not possible (but befell Bernanke. See Chapter 8). A plausible account knows banks create money, but, like states which tax to service or retire their debts under inflations, healthy economic activity is a must for retiring commercial bank debts too, so that both can 'serve as money'. This compares ill with contortions of Burns to Bernanke.

In Perry Mehrling's subtle argument that 'taxes drive money' but not exclusively, neither state debt nor bank debt is 'default free'. Money can become unacceptable, non-transferable or untrustworthy in both cases. The payment system can collapse, as in 2008. Why did central banks applaud near money's explosion? The previous Fed Chair, Greenspan, seemed to fear while praising markets (see Chapter 7). Bernanke? He did urge jobs (see Chapter 8), with a monetarism

[95] References to GDP, CPI, 'Informal activity': Pixley (1993); Bittman and Pixley (1997), also with cited data Janet Finch on UK pensions ending 'torment'.

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manqué, which entails excluding bank money, yet knew the Fed created money since he did it publicly (under huge pressure) to save banks, as per monetarist 'histories' of the Great Depression (in Chapters 3 and 6).

An old term, 'Real Bills Doctrine', is defended in Mehrling not because these commercial bank bills are 'safest' (see Chapter 3) or, least of all that 'free banking' without a central bank is possible because banks are allegedly self-regulating. He argues the Real Bills Doctrine's 'main truth' is that some proportionate bank portfolio of such 'self-liquidating bills' gives a bank the liabilities that 'serve as money'. That is, commercial bills are tied to hope that the debts of firms can be serviced and retired with the proceeds from actual economic activity. Schumpeter, similarly, saw its merit *versus* consumer debt. Thus, the *capacity to repay bank debts* resembles how state debt also needs to be 'self-liquidated' by employed taxpayers.[96] Quality debts then, are about the pattern of payments in public and private that rest on inclusive economic activity – FE for all: not charity (as rich tax evaders assume), instead reliable money we all use.

In the USA, after the 1970s calamities, private debts eventually turned (partially) into securitised loans (such as on NINJA) – later proving unsustainable in banks' main portfolio, off balance sheet (see Chapter 8). Everywhere banks became 'egalitarian' in vulgar form: women could borrow as much as they wanted.[97] In one pitifully rare triumph which improves people's capacity to service, or avoid taking unsustainable debt, Fair Work Australia decided in 2010 to award the community sector workforce a big pay rise. In public debate with orthodox economics, heterodox unionists refuted claims about

[96] See Mehrling (2000: 401–4) on state and bank debt, and on the Modern Money Theory (MMT) of Randall Wray: he argues Minsky does not 'conflate' money and state finance as Wray, although Hayek's absurd 'free banking' is anachronistic both ways; Schumpeter (1954). Ingham (2013) on bond vigilantes' impacts on state debt (which the Fed could resist). At present, there is too little central bank or regulatory impact on banks' debt.

[97] NINJA was well-known in 2007–08, an acronym meaning debtors with No Income, No Job, No Assets; i.e. dangerous US bank advances (to the poorest, often female 'NINJAs') that were commoditised, 'packaged', sold on globally, allegedly 'safely', see Schwartz (2009). 'Real Bills' as above are safer.

'gender-neutral market institutions' since they systematically undervalue the services produced mostly by women.[98]

So, the logic and ethics of multiple collective actions and beliefs (to Durkheim, 'social facts') are always present in demands for improvement. However, *what came to pass* was the opposite: illogical regression to pre-democratic doctrines. Injustice bred central bank cognitive and emotional dissonances, most of all for or against money as collective desire and need, an institutional social relation between three parties. This became unspeakable: money classes' indecencies became dominant again. In practice, but rarely sayable since the 1970s, central banks have ever more limited control over 'the money supply'. Bank novelties create (or restrict) new money, to disrupt the (*control*) definition of 'money' CBs deploy at any one time, as in 'Goodhart's law'.[99] Employment and useful investment are affected, and speculative behaviour is enhanced.[100] Even the massive pressure from employers' penchant for the lash of hunger is qualified (in logic) by higher profits in FE with its enhanced purchasing power, and the contrasting disaster of debt deflation to active businesses. Banks' and rentiers' interests in *low economic activity* returned, and this now includes corporations tied to financial practices (see Chapter 7). *CBs were suddenly divided into hawks and doves* or rather, the illogically indecent and the decent clear thinkers.

This introductory sketch shows the *growing dissonances in central bank policy* – plain logic contradicted in actions, or twinges of conscience about stagnation, newly created jobless and rapid decline of life chances.[101] Capitalist finance evasions and disruptions, and

[98] See John King (2013: 22): orthodoxy ignored 'social structures, social roles, and power relations', these feminists argued. Since then, regression returned.

[99] Simmel (1907 [1990]) rightly spoke of 'three parties' in money creation, debtors, creditors and the state. As Sheila Dow (2006: 38–44); Pixley (2004) say, banks are 'adept' at CB evasion, as in 'Goodhart's Law' of how a CB 'definition of control' shifts to expand or contract money at banks' own pace.

[100] On 'desire' and 'output': the most Durkheimian, sociological economist is André Orléan – see Orléan (2014).

[101] Some officials spoke of betrayal in my interviews, also Abelson, of Barrons, cited in Pixley (2004) said Americans disparaged Wall Street as a Casino from the 1930s to 1980s.

government war interests (we see) recreated this harsh situation. There was a time when 'banks were banks' and thoughtful advances for producers the norm.[102] Forget that. Impersonal forms of finance aimed for control (not decent service) that dismantled the central bank of the 1940s–70s era of (limited) democratic and ethical control over money. As evasive financial deals rose, financial hubs – like the old City of London, Tokyo, Zurich, perhaps Paris – became semi-autonomous from their national hinterlands. Wall Street had ups and downs that dominated. CBs transformed under their globalising (militarising) states, as mobile capital re-gathered force. Logic had nothing to do with it and nor, heaven forbid, bank balance sheets.

CENTRAL BANK AND BANK BALANCE SHEETS

Bank statements do not deceive unless aspects are hidden. Undoubtedly the fact that all money is debt – although not all debt is money, it may be 'near money' as in less transferable, or non-negotiable personal IOUs (credit) – has long been frightening; thus, the fiction of the gold standard. Economists like Léon Walras refused to include the basic practice of the deposit-creating loan in 'theory', because although he knew it, he thought it 'immoral'. At much the same time, in 1909 the no-nonsense editor of *The Economist*, Hartley Withers, outlined an 'imaginary' balance sheet to demonstrate the process of manufacturing money, and to show the mutual indebtedness of banks and bank clients. *The practice is dependent on mutual trust into the future, mutual responsibility,* but shows the fragility of banks. Loans are advances on the back of reserves.

A simplified 'Bank Balance Sheet' stylised after Withers (with Schumpeter), as 'fractional reserves' is below, in Table 1.1. Banks' and Bank Clients' obligations are entered on each side, and the way

A BoE official publicly attacked Thatcher's intent to destroy unions and create a vast reserve army of labour, cited in Palma (2009), on Budd.

102 Greider (1987: 96) shows the US FE Act was too late and ignored; Kaufman (2015) on the former bank behaviour to clients, business and households. It is moot whether wars increased as politicians became less popular domestically; causal factors are hard to prove but nuclear arms funding is concealed, we see in Chapter 2.

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Table 1.1. *Simplified private bank balance sheet*

Private Bank:	LIABILITIES		ASSETS	
	Deposits: At 'call', due to client		***Loans: Accrue interest from borrower***	
	Owing to Jamil	\$1,000	(Cash or notes in hand or now electronic. No interest accrues to bank from Jamil)	\$1,000
	Owing to Louisa	\$900	Loan to Louisa if reserve 10%	\$900
	Owing to 'Others' – Sam and Joc	\$810 \$729	Loans to 'Others' – Sam and Joc	\$810 \$729
	Other deposits; equity etc.		Other loans; other transfers, etc.	
Totals:		\$3,439		\$3,439

Source: Withers 1909: 25-36

mutual indebtedness occurs through creating money also appears. The opposite of firms and household balance sheets, which include non-money, unlike banks. In contrast, financial statements always 'equal' (double-entry rules), since bank buildings (e.g.) are a tiny fraction of assets (or 'non-money'). 'Jamil' is the 'saver' who deposits his wages or windfall. The others are bank borrowers.[103]

[103] On balances, loans deposited, and on Walras, see Schumpeter (1954: 1015, 1026, 1116); Withers (1909: 25–36) also on cheques, as 'evasion' of the UK 1844 Act (1909: 56–84).

The bank and the client have mutual obligations into the uncertain future; the downsides are that the borrower may default, or the bank may renege on its promise to clients' ability to spend freely from their deposits (as in the GFC). Withers uses this over-simplification to show how a bank manufactures money; the scale in large established banks is vast, but the procedure the same for this slice or handful of depositors, and for other banks which also receive proceeds as deposits from loans spent. Withers built on this to show how from notes (and early disasters), cheques were used in his day, whereas today electronic transfers are most common; he then considered the BoE's balances. The procedure is the same – the BoE's clients are other banks and the government.[104]

In the central bank balance sheet, too, patience is needed to read double-entry bookkeeping, but it cannot be avoided. This is because partisan positions only enable one to unearth clues by comparing their debates; that is, by assessing the logic, norms and evidence of different arguments: unlike balances. Schumpeter's statement about fiscal policy, that 'the budget is the skeleton of the state stripped of all misleading ideologies', applies equally to banks and CBs as creators of money.

The 'skeleton' in CB statements is found in their interactions with treasuries and with private banks. Their historical statements bring 'to the realm of sociology' the social relations of central banks,[105] but they cannot show changes over time in any specific asset and liability statement. Since banks hold no non-financial assets to speak of, the two sides in double entry bookkeeping equal zero. So, one can only see money expansion or contraction over a series of statements.

Ultimately (in the 5th row), from $1,000 (Jamil's representative 'reserve'), $9,000 is created through loans or advances in a 10 per cent fractional reserve banking system. More dubious bank practices emerged, notably after the 1970s. Savings banks (fixed time deposits not 'at call' in some rules) and mutuals, thrifts and building societies (not 'banks') changed or vanished.

[104] Prompted by the GFC (probably) McLeay et al. (2014) of the BoE also depict balances and money creation; as do Ryan-Collins et al. (2011); and speak of 'non-money' in non-bank balances of firms etc. These are non-liquid or less liquid. Withers' balance sheet example is simple, possibly easier to follow.

[105] Schumpeter (1991 [1918]: 100). His approving quote on sociology is an Austrian's at the time of WWI. He thus challenged orthodoxy which, to this day, avoids remarking on the deposit creating loan.

The ease with which banks and central banks create money (permitted with state licence, and charter) with advances (loans) entered as both liabilities and assets, is remarkable. In contrast, for firms and households, one can spot a deficit or a surplus in each statement because they have either more, or less liabilities (debts) than income flowing in from employment or non-money assets. Further, in the case of banks, 'the cost of production of money is a negligible factor in its price' (it is 'penmanship' or, today, keystrokes),[106] whereas producing goods or services (hard work) always has a cost more than merely the price of a loan. As well, banks are not money lenders since they do not have money to lend. Shown in double entry, all banks create a loan as both an asset, interest stream into the future, and a liability, deposit to be honoured by *banks*. Table 1.2 below is

Table 1.2. *Simplified central bank balance sheet*

Central Bank:	LIABILITIES	ASSETS
	Due to Treasury or private banks 'at call' or at their whim	***Accrues a stream of interest payments***
	L1 – Deposits or reserves held by private banks (to create money)	A1 – Loans to private banks of, e.g., Treasury bonds
	L2 – Deposits held by Treasury *	A2 – Loans to Treasury * or purchases/sales of T-Bonds
	Deposits held by 'others', e.g. foreign	Other securities, e.g. other states' bonds
	Net worth; equity; 'funds' or 'owner's capital', or none	Cash or notes in hand etc.
Totals:	10,000,000	10,000,000

Sources: Timoigne, 2014: 87; Wray 2014b: 117-119; Withers 1909: 261; 213 on BoE (* see the footnote on page 55)

[106] See Withers (1909: 233) on 'penmanship' and the tiny 'cost'.

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a simplified central bank balance sheet, partly drawn on the US Fed method (with far fewer zeros). Balance sheets importantly show what 'the game' is.

Licensed private banks need the CB reserves at Liability 1 (L1) as a 'required' fraction for them to create more money (or not). Banks use these reserves 'as cash'. To prevent reckless expansion, there used to be strict bank requirements on holding permitted reserves in the Fed.[107] Nevertheless, loans create deposits, and banks are merchants of debt: some economists don't look, others find it so 'obvious' they don't mention it.[108] L1 bank reserves are usually used to the max, except under quantitative easing (QEs) of 2009–10 (see Chapter 8) when reserves were awash because there was little demand for loans except for speculative asset purchases. The expansion of Wall Street banking's Fed reserves that happened in WWI was also typical (see Chapter 2): their profits come from selling debt (off the fraction in their Fed reserves) and thereby creating money. As a rule, to replenish the deposits in L1, banks must borrow from their CB, so Asset 1 (A1) rises as L1 does. The rate of interest charged on these borrowings is called the Fed Funds Rate in the US, or the CB interest rate. It is meant to control the amount of money that banks can create.[109] CBs use a movable 'target' in the rate they charge, since central banks routinely 'accommodate' private bank demands this way. Despite central bank control over their interest rates, Hartley Withers denied the BoE had control in 1908 'over the extent to which its banking customers create credit', saying that the private banks ruled the BoE.[110]

[107] Table 1.2's asterisks are explained in the chapter's last footnote. The FRA (1913) required gold reserves of 40 per cent banks' outstanding note; 30 per cent deposit liabilities: Bordo and Wheelock (2013: 75, 97). The 'deal' was so banks could gain LOLR (this is not quite QE). In 2008, Goldman Sachs asked the US government for a licence (for QE). See Figure 7.2.

[108] See, however, Minsky (2008: 55) on banks as 'merchants of debt'.

[109] See Timoigne (2014: 87), Wray (2014b: 117–19). Private banks also set their own interest rates.

[110] Withers (1909: 213, 261) about the BoE. It relates to Mehrling (2000) on bank debt (discussed earlier).

Hard money people (hawks) exclude these revealing statements, in the sense that a mere look at balance sheets contradicts the innocent role neoclassical economics gives to private banking. The uncivil, in other words, only look at whether Treasury is in debt – that is, creating money, but – again – rarely look at the way central banks cannot avoid monetising state *and* private bank deficits.[111] It would spoil their story of state profligacy alone, whereby they can depict banks as 'perfect'.

These discussions of the various motives of governments in establishing a central bank, the pro-finance motives, the war funding or pro-industrial aims, and even desires for social well-being and economic development, are the book's themes. The ways democratic procedures interacted with central bank possibilities and disputes from the twentieth century onward are stressed throughout. One question is whether central banks are comparable to the judiciary, which I argue against. Understanding money-creating processes, in contrast, is essential for assessing central banks: not about typical

[111] Drawing on Tymoigne (2014: 87): US Treasury and bank activities over any single year that expand/contract the Fed's balance sheet in stylised Table 1.2:

L2 amounts of taxes/bond proceeds go down * when Treasury spends from CB liabilities on the 'at call' side

L1 amounts go up as Treasury pays for activities; payments deposited in private banks and other economic units to increase banks' creation of credit if demanded = money supply increases

L2 amounts rise when tax receipts and bond issue proceeds come in (seasonal)

L1 amounts decline (also throughout the private banking sector): L1 is the 'base money' = money supply decreases

A2 * In the past, but not with the US Fed in WWI or now, US Treasury might ask for a loan, and the CB made this direct advance; when the Fed buys T-Bonds or Securities, A2 shows an increase, and entered/deposited in L2, increases the money base; if it sells bonds, A2 shows a decrease *over time.*

The Fed in WWI was not bypassed: even if the 1913 Fed could not 'lend' directly to Treasury, it held T-Bonds to lend to banks or to sell. See www.federalreserve.gov/releases/h41/Current/, the section 'consolidated statement'. Withers (1909: 243) said one must 'use caution' and only make 'guarded deductions' from BoE statements. Wray (2014a: 13–14) emphasises this for today too, in querying the 'fiscal discipline' of T-bonds (or 'bond vigilantes').

'functions' but their variations, despite the old money-creating patterns. It arms the argument with further complexities to explore as CBs must shift their sights in larger, usually contested contexts. The first is the earlier (under-examined) major motive of war funding that wrought many unexpected changes in the terrible occasion of WWI, to which I now turn.